A Report on the US Economy

THE NEW REPUBLIC

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T.R.B. *from Washington*

On the Road

★ A bride in veil and fluttering silk stands outside the church on Michigan's James Campau Avenue in Polish Hamtramck, colored confetti and torn bits of political paper mingling on the black asphalt before her while the band plays across the street and the Kennedy motorcade approaches. Here it comes! – a car hanging with Secret Service men, a double line of black-leathered cops on snorting motorcycles, with white helmets and chin tabs, and then the President . . . brown-headed, grinning, in an open car, carrying a throb of emotion along with him like an electric impulse for five miles of people. The bride still stands there, looking after him, as the press bus trundles by.

Now Kennedy is speaking in the square before the Sheraton-Cadillac Hotel. The text of an advance speech is distributed, but reporters know that any connection between it and what he says is coincidental; yet they treasure the text too, for how otherwise would they know what Kennedy "departed from"? It is the same basic speech: "Republicans have made the word 'No' a political platform." There are colored knots in the crowd. Kennedy recalls that in spots in America "churches were burned; three women were shot" because they tried to register; here it is easy, people should do it. It is a telling appeal for Negroes.

Now it is an airport. Plumed high school bands play "Hail to the Chief" – a tune as monotonous to Chief Executives as would be "Here Comes the Bride" for every appearance of a married woman. Bare-legged sex kittens writhe and wriggle in the acceptable social form of drum majorettes with contortions that would rouse a saint. Placards demand free use of tax supported school buses for "Boone County Parochial Schools." Kennedy ignores them.

Less friendly placards appear elsewhere. OK You Licked Miss, How About Cuba? ask the warhawks. And some wag has armed a toper on Detroit's skid row with a sign, More Money for College Aid.

Foliage is turning. An occasional maple tree blushes like a peach, or drops a circle of colored leaves like a girl disrobing. Smoke is in the air.

These crowds are Democratic mostly; Kennedy is not persuading anybody, he is trying to get those already persuaded to *do* something. Democrats outnumber Republicans in the US 3-2; but low income Democrats don't bother to vote.

Whodunit?

★ Kennedy's sentences are short and crisp and he occasionally shows genuine passion; the crowds respond in the degree to which he shows emotion. Republicans, he cries, voted against health, school, housing and other reforms; he cites statistics effortlessly; he has a good mind. Only occasionally does he mention opposing Democrats – "a handful of Democrats," he says, who have fought him. Kennedy is not going to campaign in the South. He wants more Democrats in Congress, he says, but Democrats already control both Houses of Congress. He can't, or won't, be candid about the essential problem of a conservative coalition.

There are other difficulties. At Fountain Square, Cincinnati, in the jam between 5th and Walnut, before the Rexall Store and the Sheraton-Gibson, this reporter was electrified to hear Kennedy suddenly deplore America's sluggish economy: "The lowest rate of economic growth in the last five years of any major country in the world," he said – more unemployment than in any other big Western country except Canada, in contradistinction to full employment in Soviet Russia.

Goodness me! That is just what TRB told his readers last week. It produced an odd impression for it sounded like 1960 all over again. *Who* has been President in the last two years, anyway? *Who* was it who made the basic economic decision for low spending, low deficits and high unemployment? We rubbed our eyes. Maybe the new Kennedy slogan should be, "Let's get the country moving again, again!"

It would be hard for any liberal to hear what Kennedy is appealing for without being drawn to his side. All the bills Ike ignored JFK introduced, and he got a lot of them passed, too. Now he asks for more Congressional support to pass others. He speaks with feeling and occasionally with fire. But the essential paradox, the political dichotomy, is always close.

Kennedy works with the GOP and with Dixiecrats, he avoids frontal conflicts, is supple, compromises. Politically the procedure is plausible: his margins are paper thin, he has got more out of Congress than Truman did with his slam-bang approach after '48.

But the trouble is that issues never quite crystallize. It takes heroic conflict to dramatize and clarify them. A few hours after deploring America's sluggish economy (all due to GOP obstruction, of course) Kennedy was telling another Detroit audience how much local unemployment had shrunk; later, at St. Paul how farm income had risen.

Winning Congress

★ Maybe in America's peculiar political coalitions, without party discipline, we have to proceed this way, wriggling on the stomach instead of walking erect. This reporter has never puzzled it through. Defy Southern conservatives? Impossible! They dominate the committee chairmanships.

So we come away from a campaign trip with Kennedy exhilarated but a little baffled; a winning, attractive figure pleading skillfully for the right things, but whose chief problem now is the muted policy of the past 20 months. Suppose he had taken his single strongest issue, medicare, and played variations on it in fireside chats for a year or so. Wouldn't he have a stronger appeal now?

The "out" party has won House seats as follows in recent years: '38 (R) 80 seats; '42 (R) 47 seats; '46 (R) 56; '50 (R) 28; '54 (D) 19, and '58 (D) 49 seats. Will the GOP win the average, 46 seats, this year? Kennedy is boldly staking his prestige that they won't.

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The Conservative Failure

It is an axiom of any civilized society that the institutions of self-government have their just claims, and that order is almost always preferable to that brutish state in which men are at each other's throats. This, at least, is classical conservative doctrine. Nevertheless, some of the most aggressive proponents in this country of what they call "conservative philosophy" deserted that doctrine when it was under hot fire in Mississippi.

Indeed, they tried to turn tradition upside down. The law of the land, they have insisted, is not what the courts say it is; the law is what David Lawrence or Governor Barnett or Arthur Krock decrees. But if the law is what any man chooses to believe it is, or what this group or that state interprets it to be; if the Supreme Court is not the Supreme Court but, as Mr. Buckley of the *National Review* calls it, "the Warren court"; if specific judicial orders are not to be obeyed because they are objectionable – then wherein does a Republic differ from anarchy? Do not those self-styled "conservatives" who abetted and then condoned insurrection in Mississippi deserve henceforth to be described as fellow-travelers of the Subversive Right?

When the integrity of the federal union was challenged; when civil order needed defending; and when the right of one Negro not to be denied an education at a state university solely because of race was being put to the test, where were these "conservatives"? All the *National Review* could find to say the week after Bloody Sunday in Oxford was that the Governor of Mississippi is a sincere man, and that there is some question whether George Meredith will be "happier or better off" at the University of Mississippi than he would be at a Negro college. And after having remained silent before and during the riots, Senator Goldwater a week later announced that Governor Barnett "had every right to do what he did," since the Supreme Court decision on desegregation "is not the law of the land."

As one reflects on the remarks of such "conservatives," one might conclude, wrongly, that George Meredith was thrust upon the University overnight without warning or due process. That was not the case, nor has it been the case in any instance where segregation in schools has been successfully challenged. Within the "deliberate speed" formula, there has been continual negotiation, and out of that negotiation the law has been formed. Each of these cases has involved protracted argument in the courts. The Negroes have gone along with the gradualism inherent in the Court's formula. They have not pressed

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Murray Kempton

The editors are pleased to announce that, beginning next January, the widely-read columnist of the *New York Post*, Murray Kempton, will join the staff of this journal as Editor-at-Large. Author of *Part of Our Time* and American correspondent for the *Spectator* (London), Mr. Kempton will rove and report for *The New Republic*. "He has never," said *Newsweek* (October 15) "been accused of impartiality. He could hardly type the letters from an eye chart without taking sides."

everywhere, simultaneously, their demand for non-discriminatory admission to public schools. They have been selective and slow. Such restraint should have, but has not, commended itself to "conservatives."

Senators John Sparkman and Lister Hill of Alabama have had the reputation of being moderate men, statesmen of the nation more than spokesmen for parochial prejudice. Where were they? Had they no responsibility in this crisis to think beyond the next election, no duty to help reconcile their constituents to the Americanization of the South? They wired Governor Barnett on September 26, commending him for "the courageous battle you are waging for Constitutional government." They thus allied themselves with members of the Mississippi delegation in Congress who have long nurtured these tragic illusions of the sanctity of white supremacy. Governor Barnett is a state official. Senators Sparkman and Hill are not. Senators James Eastland and John Stennis are not. They live at the seat of national government; they are part of that government. Silence on their part would have been better than outright encouragement of the mob.

Senator Eastland is a pre-Civil War relic and no admirer of "the Warren Court." Even from him, however, something less than incendiary provocation might have been expected. And his contribution was incendiary. On September 26 he boasted that "Southern people, by and large, will not recognize, abide by, or comply with any illegal court decree"; he referred to federal judges as "judicial tyrants"; he warned that "there lurk [in the background of the Supreme Court's decision on desegregation] the agents of Communism, and sociologists and psychiatrists. . . ."

John Stennis is a more pitiable case. Here is a decent man who understands how the law is made. He was a circuit judge for 10 years; before that he had been a district attorney. But Stennis' term comes to an end in 1964. Barnett's term as Governor does too. And so Mr. Stennis rose in the Senate at the very time when moderation was most in need of advocates – and Southern, conservative advocates – and praised Barnett for maintaining "a most commendable position." He affirmed that the Governor was "trying to protect the rights of the race." He espoused the duty of the whites to maintain "the purity of their bloodstream," thus lending his prestige to the vulgar implication that George Meredith's presence at Ole Miss would sully the womanhood of Mississippi. He knew better. And so did Mississippi's Representatives Thomas Abernethy, Jamie Whitten, John Bell Williams, Arthur Winstead and William Colmer.

Aware of the Governor's muleish parochialism, they all publicly called on him to stand fast. Knowing the President is constitutionally bound to take care that the law is faithfully executed (and the law in this instance had been defined clearly by the court), they went through the charade of counseling him to back down on his obligations. Given an opportunity to serve their constituents wisely, they disserved them ignobly. Not averse to being considered conservative, they surrendered the essence of the conservative concept of the representative function. That concept was exemplified in 1777 by Edmund Burke in his letter to the disgruntled sheriffs of Bristol who had complained that his actions in the House of Commons did not represent their sentiments: "I hope," he wrote, "that whenever any of them [constituents] were pleased to command me that they found me perfectly equal in my obedience. But flattery and friendship are very different things: and to mislead is not to serve them. I cannot purchase the favor of any man by concealing from him what I think is his ruin. . . . I may be unable to lend an helping hand to those who direct the state; but I should be ashamed to make myself one of a noisy multitude to halloo and hearten them into doubtful and dangerous courses. A conscientious man would be cautious how he dealt in blood. He would feel some apprehension at being called to a tremendous account for engaging in so deep a play without any sort of knowledge of the game. It is no excuse for presumptuous ignorance that it is directed by insolent passion."

87th Congress

Kennedy's first Congress gave him less support than he wanted and more than some of his wary advisers anticipated. But if the legislative performance of the past two years is weighed on the scale of the nation's needs, the 87th Congress gave the country far from full measure. Next week, *The New Republic* will examine in detail what this Congress did and did not accomplish. A specially prepared chart will show how each Representative and Senator voted on 12 key issues selected by the editors.

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Dear New Republic,
Just for the hell of it, I flew a little airplane down to Oxford, Miss., a week ago Saturday. Hoke Norris, a Sun-Times *reporter, went along, and we found ourselves up to our necks in the whole thing until Tuesday. Hoke wrote a long piece of copy, and I did this drawing. The reason I did it was that there was a scarcity of photos; everyone who showed a camera got beaten up. It occurred to me that you might find some use for it.*

BILL MAULDIN

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Capitol Hill Commandos

Containing both Castro and the commandos on Capitol Hill will require some adroit maneuvering on the part of the President. He has to seem to do *something* if he is going to neutralize the critics of a "no-win" policy. But what? His hope that "the American people, defending as we do so much of the free world, will in this nuclear age . . . keep both their nerve and their head" about Cuba, is not shared by Republicans who think they might be able to cash in politically on Castro. It is not shared by what Walter Lippmann calls "the war party," which sees in Cuba its first chance in a decade for a "safe" win. It is not shared by the Luce publications or by such prominent Democrats as Senators Dodd and Smathers.

What the advocates of a get-tougher policy seem to miss is that although a US-backed invasion of Cuba could have been rationally contemplated a year ago, today there are 4,500 Russians in the line of fire. These Russians are not soldiers, but they serve much the same "plate glass window" function in Havana as do Western troops in Berlin. With or without exiles, an assault that is marked *made-in-America*, though it might not trigger World War III, would almost certainly set off retaliatory Soviet actions elsewhere (*i.e.* Berlin). No one can foretell how far and fast we would then be propelled toward unlimited war. Is that risk worth taking? It might be if one were sure of two things: that Soviet access and aid to Cuba pose a substantial threat to our national security; and that by forcibly overthrowing the Castro regime the US would have radically reduced the danger of Communism in the Americas. Intelligence reports on the character of the arms buildup in Cuba refute the first assumption. Common sense refutes the second.

As for the Administration's attempt to penalize shippers who carry Soviet cargo to Cuba, it is likely, as Denis Healey wrote last week in a letter to *The New Republic*, "to damage the Western Alliance a good deal more than it damages Castro." It is people like the Norwegians (who are reluctantly doing Washington's bidding) who will suffer most if Washington in fact bans the use of American ports to all the shipping of any country, one of whose vessels has been found carrying arms to Havana. Only the most desperate urgency justifies asking friends to do what is distasteful and harmful to them. Most of our allies have no legislation which would permit them to enforce a shipping ban in peacetime; nor do they want to enact such legislation. It would be bad business and bad principle. As the Danish Shipowners Assn. announced last week, "Danish shipping, in accordance with time-honored traditions, must advocate the freedom of the seas."

Moreover, there is a tremendous surplus of space over freight in the ocean fleets of the world. In the absence of total blockade (an act of war), there is no great problem of getting ships if one wants them badly enough.

Short of armed intervention by the US, the only way Cuban Communism is going to be overthrown is by the Cubans in Cuba. Despite some wishful thinking in Washington that the masses are ripe for counter-revolution, that overthrow is not in sight. And so long as Castro can appear to his own people as the Latin David defying the Yankee Goliath, no plots by exiles in Miami or bans on shipping will remove him.

Cutting and Undercutting

In extracting a $3.928 billion foreign aid appropriation from Congress last week, the Administration fended off the worst of a barrage of restrictive amendments. The House-Senate conference committee gave the President authority to waive the prohibition on economic assistance to Poland and Yugoslavia and to non-Communist countries engaging in any trade with Cuba. But in placing full responsibility for extending aid to Communist-bloc countries on the President, Congress gave only the most grudging acknowledgement to the fact that the conduct of foreign policy is entrusted by the Constitution to the Executive. Moreover, the conferees left intact a specific ban on aid to countries whose ships carry arms or strategic materials to Cuba.

The tactics pursued by the White House in bargaining with Congress were defensive and defeatist at every stage. Pro-aid Senators who had gone out on a limb to win Senate restoration of 70 percent of the funds that had been cut by the House found afterward that Mr. Kennedy had undercut them in advance through an unpublicized arrangement with Representative Otto Passman (D, La.), the principal House opponent of aid.

In a TV interview, Mr. Passman disclosed he had agreed in a meeting with the President to support the restoration of $300 million at the conference committee stage in return for Presidential concurrence in the decision of the House leadership not to stage a floor fight to restore the cuts made by Mr. Passman's Appropriations Subcommittee. Although the conference committee was nominally free to restore as much as it wanted, the Administration had for all practical purposes tied the hands of the Senate representatives. Reporting on the final meeting of the conferees on October 5, *The New York Times* observed that "the fight had gone out of the Senate negotiators when they learned at yesterday's meeting with the managers for the House that the White House had been party to the agreed minimum restoration of $300 million."

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THE ARABIAN PENINSULA HAS BEEN SHAKEN BY THE YEMEN

Middle East Upheavals

Beirut

The Yemen, it used to be said, was marching swiftly from the 13th into the 14th Century. But the jest lost its point the other week when a revolutionary colonel, Abdallah Sallal, leapfrogging a few more centuries, overthrew the ancient theocratic rule of the Imam and brought his country into line with much of Afro-Asia. For the first time in history, a Republic was proclaimed in part of the Arabian peninsula.

The change is of no immediate consequence for the 4.5 million ragged and illiterate Yemenis who will no doubt continue to chew *qat* and graze their mountain cattle as before. But in the Arab world beyond the Yemen's borders, it is a blow against the forces of tradition and a victory for self-appointed soldier-presidents everywhere. Cairo rejoiced while the Kings of Saudi Arabia and Jordan expressed their displeasure and concern – and not only in words. Saudi troops moved to the border. For days there were rumors and counter-rumors of outside intervention, of rebellion in the hills against the new republic. But as of this writing it still stands. Up and down the Red Sea and along the Persian Gulf, a score of petty rulers have trembled and looked to their defenses. To Saudi Arabia, in particular, long the undisputed master of the peninsula, a revolutionary Yemen on its flank is a far greater threat and provocation than Cuba could ever be to the United States. This is because the Yemen has now provided President Nasser with a base from which to harry his bitter enemy Saud. It is also an example to stimulate every ambitious colonel in the area.

The point is that the Arab states are less concerned with the fate of the Yemeni people than with propping up their own respective systems of government. The Yemeni revolution has thus become a new weapon in inter-Arab feuds. But it is also a threat to the last of Britain's Middle East strongpoints in Aden and the Gulf which stand guard over the vast oil deposits of Kuwait and Abu Dhabi, over the oil lanes to Europe, the mouth of the Red Sea and the trade routes to India and East Africa.

In a more general sense the upheaval in the Yemen serves to recall the role which armies have played in the Middle East since the war. Training and modern weapons make them into an elite corps in a traditional society. It is only a step from there to becoming instruments of social change and masters of the political scene. The Imam Muhammad al-Badr, who was reported buried under the ruins of his Palace, was therefore the first victim of the Czech and Soviet arms which he was responsible for obtaining.

It is ironical that these revolutionary changes, modeled on a 10-year-old Egyptian pattern, should have taken place the same week as President Nasser's authoritarian regime showed signs of mellowing. In a bid to rebutt charges of personal dictatorship, Nasser has announced that he has vested his powers in a Presidential Council and set up a new executive committee composed mainly of civilian technicians to handle day-to-day administration. Nasser appears inspired by two major objectives: to create political institutions in Egypt which will survive him; and to broaden the base of his regime and thus secure greater popular participation in building the new Egypt he dreams of. For nearly a decade, Nasser has ruled Egypt with a handful of his former conspirators without parliament, constitution, political party, or any political institutions or state apparatus worth mentioning other than the security services. His fundamental difficulty has been a reluctance to allow any curb on his powers – whereas for political institutions to have life they must be given some independent authority. In spite of the latest institutional changes, it is still not clear whether Nasser has understood this.

Overshadowed by these developments, the US decision to provide Israel with a number of Hawk-ground-to-air missiles has roused little more than routine Arab protest. A year or two back it would have caused a riot. The difference is partly due to the all-engrossing savagery of present inter-Arab feuds; it lies too in the massive US aid program to Egypt – over $250 million so far this year – which inevitably takes some of the stuffing out of Egyptian protests. Yet another factor, generally recognized by Arab leaders, is that the US is doing no more than redress, a balance disturbed by Soviet deliveries of similar missiles to Iraq for the defense of Baghdad and the deliveries of the versatile, low-altitude TU-16 to Egypt.

Meanwhile the American Sixth Fleet has been showing the flag in the Eastern Mediterranean. The aircraft carrier *Forrestal* has been standing off Beirut like a prone skyscraper, lighting the harbor at night with festive loops of pearls as launches hurry the boys to the shore, each to make his dollar contribution to the Lebanese balance of payments. PATRICK SEALE

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Generalities That Glitter

The President is really good when he is good and mad. The restrained fury of his comment when he went on the air to talk to Mississippi or his response when Congress cut the heart out of his foreign-aid bill was truly edifying. It was not the inarticulate rage of an Eisenhower, or the highly articulate rage of a Truman, or the sarcastic rage of a Roosevelt, but it was nevertheless the real article – correct, even polite, but icily correct, cuttingly polite. It leads to suspicion that the greatest boon a gracious Providence might bestow upon him would be a handful of violent enemies, not enough to overwhelm him, but vociferous enough to keep him in a state of repressed indignation.

Apparently emotional heat that causes most men to sputter has the opposite effect on Kennedy. At 210 degrees, a hairbreadth short of the boiling-point, he becomes lucid, logical and immensely plausible. If he were kept at that temperature for a considerable period, the continued heat might dissolve one of the very few superstitions which he seems to cherish – the superstition that glittering generalities no longer glitter.

The thing had its origin, no doubt, in the fact that what have been presented as generalities in recent years are not generalities at all, but *ex parte* pleadings so patently fraudulent that the wayfaring man, though a fool, could not err therein. It is true enough that fustian doesn't glitter, and it may be true that the ability to identify fustian has been notably increased in the contemporary generation. But that has no bearing whatever on President Kennedy's great problem as it stands at the half-way point of his first term.

That problem is to canalize and thereby energize the immense good-will that is felt toward him in all regions and among all classes at present. His inability to do this was Eisenhower's great failure. But Eisenhower simply didn't know how to do it. Kennedy knows how it has been accomplished in the past, but seems to doubt that the old methods will work any longer.

In this matter of the foreign-aid program, for example, he was highly successful in exposing the evil effects of the sabotage but he wasted no time in emphasizing the remoter, but larger, good effects of the program itself. Apparently he assumed that everybody understands those effects, so he need waste no time on them. In any event, because they are remote, they are more or less speculative, hence impossible to discuss except in generalities. That is an error. A great many Americans never have grasped the wider implications of this work, which explains why Stewart Alsop discovered, especially in the Middle West, a growing uneasiness about the whole program.

One reason for this is that the people have been deliberately misled by most of those who should have informed them. They have been told that foreign aid is necessary for our own protection by containing Communism, in part by superior force but largely by preventing its spread by infection through those regions where misery and want are chronic.

These reasons were, and are sound enough, but there was an implicit, if not explicit limitation upon their sufficiency. They had no other basis than frank expediency, and most people believe that the expedient has a connotation of the temporary. They assume that what is expedient now will eventually become unnecessary, so, "When is this thing going to end?" becomes a legitimate question.

Furthermore, all these reasons necessarily imply some measure of manipulation of other nations to serve our own ends, which is an idea that Americans may swallow, but with no pleasure whatever. It tastes like disguised imperialism.

There is, however, a remoter effect toward which the foreign-aid program is directed. This is the eradication of extreme misery and desperate want from any place where they may exist, partly because such spots are foci of infection from which Communism may spread, but largely because their removal would establish a more stable and orderly civilization. This, too, is to our interest, but much more to the interest of others, hence it is free of any taint of imperialism.

This is a generality, but it is a real one, no fustian, and never think that it doesn't glitter! If the eyes of the contemporary generation are blind to it, then the contemporary is different from every earlier generation since Alexander the Great dreamed of *Homonoia*, the concord of all mankind; which is arrant nonsense. It is inconceivable that Mr. Kennedy is unaware of the human yearning for a great purpose that temporary expedients are designed to serve; but he has not applied that knowledge, and so, according to Alsop, the Middle Westerners protest that they do admire him and yet shake their heads.

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Time for a Keynes

An Inquiry into What New Economic Thinking Is Required for the US in the Sixties

edited by Helen Hill Miller

Though we say it is Time for a Keynes, the editors of *The New Republic* are aware that under the prodding of the Kennedy Administration the country *has* begun to appreciate the need to move again; yet the movement is slow and uncertain. History is not likely to rate highly American economic performance of the past decade. Pleading for some realistic economic thinking, the President himself made the point in his speech at Yale on June 11:

"What we need are not labels and clichés but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead. The national interest lies in high employment and steady expansion of output and stable prices and a strong dollar. The declaration of such an objective is easy. The attainment is an intricate and interdependent economy and world is a little more difficult. . . . We require not some automatic response but hard thought."

Through the postwar years, enough new economic and social facts have appeared to require a radical reexamination of our ways of doing business. And why not? This is not the first time changed circumstances have forced this country to contrive new and more appropriate policies. In the 1930's, each of the two main economic philosophies of the early industrial revolution received sharp jolts. The New Deal provided workable alternatives to the catastrophies forecast by the followers of Adam Smith and the cataclysms prophesied by the followers of Karl Marx. The fundamental economic theory underlying the New Deal was largely that of John Maynard Keynes and his colleagues on both sides of the Atlantic. The government intervention they advocated, to forestall or mitigate economic downswings and to encourage expansion of national capacity and full use of resources, has since become the conventional wisdom; though this is not to say that it does not have its unreconstructed foes. Keynesian economics made the goods of life available to more and more people, raising and sustaining levels of personal consumption, and thus simultaneously increasing both the Gross National Product and the pursuit, if not the capture of happiness. Both the GNP and the relevance of Keynesian doctrine were upheld in the 1950's by the steadying effect of high consumer expenditures – minor

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recessions notwithstanding.

During the trial run of Keynesian theory, however, millions of first-time buys of consumer durables were stimulating American industrial expansion – first-time purchases of TV sets, washers and dryers, cars. (A similar effect is now visible in the West European economy.) A generation later, this forward thrust is spent; high consumer purchasing power sustains the economy but ceases to expand it; factory employment becomes correspondingly sluggish. Today's new buys are increasingly from service occupations: more and more Americans are earning their incomes by taking in each other's washing and giving it back wrapped in cellophane.

After each of the recessions of the '50's, returns to full employment have been progressively incomplete. With idle men and idle resources, the economy has been parked on a high plateau. (An example is the maintenance, during a decade of mild recessions, of a fiscal policy designed to contain inflationary forces).

Economic growth rates in the industrialized West have been least satisfactory in Britain and the US, yet these are the two countries whose currencies are basic to world trade. In both, monetary policies intended to keep the currency stable internationally have had the effect of braking the speed of domestic advances. In spite of this, proposals leading toward international monetary management remain in the suggestion stage.

Collective bargaining that determines the wage component in US prices is carried out entirely within a domestic framework. Yet the new trading situation produced by formation of the European Economic Community will cause more and more prices to be set at world market levels. In a world catching up and in some instances outpacing the US, the problem of keeping competitive takes on new dimensions.

In large part, the fruits of the economy are now distributed through wage and salary payments. But large numbers of Americans are unable to share the wealth on that basis. Those on the bottom of the ladder today are not the same ones of whom FDR spoke when he referred to the "third of a nation." To the traditional poor – the members of broken homes, marginal workers, school drop-outs and other unfortunates – three new groups are being added:

From the time World War II ended, well-equipped new homes have burgeoned with babies; the first-born are now just turned 18. There were 2.6 million of them in 1960; there will be 50 percent more – 3.8 million of them – in 1965. As potential customers at the age of household formation, they are good news; but are they going to find jobs to support them in the style to which the ads have accustomed them? In many occupations job openings are fewer, and unemployment among the young seeking their first work experience is always high.

Wholesale installation of automation and computers to operate production lines, to perform retail distribution and inventory control, to process corporation paper work, is suddenly rendering obsolete hitherto dignified skills at the very time when the population of working age is climbing. Recent joblessness has borne hard on responsible heads of families whose prolonged failure to find work raises questions as to whether work as they have known it will ever again be available.

The elderly population, severed from the economy by retirement, is increasing rapidly; its standard of living breaks sharply at 65, while its life expectancy at that age now extends for a further 14 years, and is lengthening.

For all of these people, public assistance as a formula for relating the person to the economy is intolerable, and other protective cushions are too thin.

A major though still incomplete migration out of agriculture has gone along with the modernization of farm production. But if persons exported from farm to city cease to find a local market for their services (along with others already there) will the Peace Corps be a first example of Americans with farm or city skills moving to parts of the world where automation lies far in the future?

How fast will communities well off in respect to cars, houses and refrigerators be willing to recognize that they are poor in schools, transportation, municipal centers, museums, even though such recognition implies expansion of public payrolls? The big business of education offers a vast unfilled market for administrators and teachers.

This list of situations requiring candid confrontation is very incomplete, but it indicates why, for this special issue, *The New Republic* has invited a group of economic scholars to write to the new present and the still newer future.

This is not a symposium, however. We have given each contributor an exclusive franchise in his area of special competence, where he has expressed his individual views without reference to positions that may have been officially taken by the organization with which he is currently affiliated. And we have asked each to treat his segment of the changing economic pattern, not in terms of what should have been done yesterday afternoon or at any rate be completed by tomorrow, but in a perspective that might be expected to remain true through the present decade.

In this context, we present a series of brief, specific analyses, followed by three longer essays that are more philosophical in tone. Comment on the former is provided by this country's outstanding Keynesian, and on the latter by the Chairman of the President's Council of Economic Advisers.

We address the whole *To Whom It Does Concern.*

HELEN HILL MILLER

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Economics of the New Frontier

"Neo-Keynesian" is, in the view of the Kennedy Administration, the single term that best describes its economic thinking.

It thinks of itself as "Keynesian" in its stress on "aggregate demand" as the motor force of the economy, and in its readiness to stimulate demand through government power to spend and tax. Douglas Dillon is probably the first Secretary of the Treasury to accept the principle of deficit financing; there is no precedent for the President's commitment to use a tax cut to stimulate a lagging economy.

It thinks of itself as "Neo" in its stress on "growth." Far more than any of its predecessors, the Kennedy Administration believes, it has been concerned to upgrade the quality of the national plant and working force, the better to meet the challenge of a future increasingly dominated by rapid technological progress.

Clean transition from thought to action has, the Administration acknowledges, been subject to outside constraint. The country as a whole was conditioned by General Eisenhower to think of the national economy in the homely but inappropriate terms of a family budget. Congress has been dominated by outmoded rural interests, many of them heavily subsidized. The balance-of-payments crisis, with the ever-present threat of flight from the dollar, has put a limit on the use of cheap credit as a stimulant. Still, by cooperation with allied governments and by the "twist" policy (supporting short-term interest rates while holding down long-term rates) the Administration has managed to cut the payments deficit by more than half without any appreciable rise in credit costs: it regards this as a notable success. In general, moreover, the Administration believes that its deeds have kept faith with its words. It rejects in particular the notion that this is the "Third Eisenhower Administration."

In stimulating demand, the Administration believes that it has been consistently more aggressive than its predecessor; and that it has also pushed different levers. At the outset, with the nation in recession, the emphasis was on spending to build consumer purchasing power: The Housing Act of 1961, pledging $2.5 billion for a four-year urban renewal program; the Minimum Wage increase to $1.25 with coverage extended to 3.6 million additional workers; the raising of feed grain and other farm support prices; the Temporary Extension of Unemployment Compensation; and a host of executive measures: cutting interest rates on insured FHA housing from 5¾ to 5¼ percent and accelerating federal expenditures on procurement, construction, highways, tax refunds and veterans insurance.

After the Kennedy-Khrushchev meeting in Vienna there was a marked rise in spending for defense (up from $43.1 billion in fiscal 1961 to an estimated $51.6 billion in fiscal 1963) and space (up from $1.8 billion in fiscal 1961 to $5.4 billion in fiscal 1963).

In the late fall of 1961, emphasis switched again – from the possibility of a tax increase to cover defense spending to the possibility of a tax decrease to head off a new recession. In his Economic Report of January, 1962, the President asked Congress for a tripartite program. It included two new spending measures: stand-by authority for up to $2 billion in public works; and permanent enactment of increased benefits, extended eligibility and wider coverage in unemployment compensation. But pride of place went to a request for stand-by authority to combat recession by cutting personal income taxes. In July the President, increasingly concerned to avert recession, came close to seeking an immediate reduction in income and corporate taxes. His economic speech on national TV August 13 included the tri-partite program of January. But its centerpiece – and the centerpiece of current economic policy – was the pledge to cut taxes next January.

As for measures to improve the quality of the American economy, the Administration feels that it has moved across the board and that there is no comparison with the years 1953 to 1960. The Trade Expansion Act of 1962 will have the effect of expanding markets for the most efficient enterprises while increasing foreign competition for the most backward. Incentive for plant renovation is provided by the investment credit in the 1962 Revenue Act, and by the Treasury's administrative revision of depreciation schedules. Upgrading of work skills has been set in motion by the Area Redevelopment (depressed areas) Act of 1961, and the Manpower Retraining Act of 1962. Much more improvement in both the skills and the health of the work force was implicit in the Youth Employment Opportunities Bill and the Education and Medicare Bills defeated in the Congress. Establishment of a Consumers Advisory Council is a step toward making business more responsive to demand. Whatever the political repercussions of the successful intervention to head off a hike in steel prices, it at least had the effect of drawing public attention to the outmoded condition of some plant and – to put it bluntly – some management.

The economic consequences of government policy are notoriously hard to trace. But one disappointment in the Kennedy record is generally acknowledged on the New Frontier. Stimulation of demand has not been sufficient to reduce unemployment to the 4 percent target. Slackness of demand has not only held unemployment above 5 percent but has blunted beneficial results of other measures. An unemployed coal miner is not much better as an unemployed mechanic – even if he is retrained. Investment credits will not spur a company to invest if there is no demand for the products of the new plant. This is the more serious in that the intrinsic thrust of the economy seems to be in the direction of greater social polarization. While the economically strong and skilled – the growth companies, the progressive farmers, the research and development scientists, the doctors and the bankers – tend to be increasingly well off, the economically weak and unskilled – largely Negroes, small farmers and unorganized workers – tend to become worse off.

But against this debit, the Administration can and does claim an impressive list of credits. The economic re-education of the nation has begun. Prices have held stable. As the President pointed out in his August speech,

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all the comparisons – Dow-Jones averages excepted – with January, 1961, are favorable: Gross National Product up 10 percent; Industrial Production up 16 percent; Unemployment Rate down 23 percent; Disposable Personal Income up 8 percent; wages and salaries up 10 percent; corporate profits before taxes up 28 percent. Despite all the recession talk there is a chance – even a good chance – that the long-range cycle which brought recessions in 1954, in 1958 and in 1960 may be broken. Most important, the Trade Bill initiates in the economic field a long-range change of major moment in the development of the Atlantic Community.

Joseph Kraft

Sources of Productivity Gains

A country's growth rate depends, in part, on the pace at which it adds to its capacity to produce and, in part, on whether it is increasing or decreasing the proportion of its capacity in actual use. Over long periods, growth is dominated by the expansion of capacity. Over shorter periods, changes in the degree of capacity utilization (roughly, changes in unemployment rates) can also be of great importance. This distinction between the long-run and the short also corresponds to a difference in the causal factors at work. Capacity is controlled by physical factors – the size of the labor force, the hours of work, the stock of capital equipment, the state of technology which that stock embodies, and the efficiency of industrial organization. The volume or degree of unemployment is controlled by the state of demand – by whether or not it is large enough to make full use of capacity.

The US growth rate, as measured by net national product, has been about 3.5 percent a year on the average over the long period from 1889 to 1957.

The data reveal two striking facts about long-term growth in this country. The first is that it has been due chiefly to a rapid advance in productivity: that is to say, in the output obtained from an hour's work. Mostly as a result of population growth, the US labor force increased at about 1.7 percent per year over the six and one-half decades covered by the figures, but since hours were declining, the manhours available to industry grew at only 1.3 percent annually. Almost two-thirds of the growth rate of total output, therefore, was attributable to the rate of increase in productivity.

The sources of progress in productivity, in turn, are many and complex. They are connected, in part, with a great increase in capital stock – it increased more than twice as fast as did manhours. But if the capital accumulated had consisted only of such types of equipment as were known or employed at any single date, the growth of capital would have made only a limited contribution to the rise in manhour productivity. A continual transformation in the technique embodied in capital and in the organization of production is what chiefly underlies the advance. The roots of that transformation are in the advance of science, the more intensive education of the population, and the gradual accumulation of knowledge about methods of organization of industry and trade. The pressures and incentives of a market economy lure and drive investors to take advantage of growing knowledge and skills by risking an ever larger capital stock in new forms and new industries; coupled with this is the mobility and adaptability among workers who must accept continuous revolution in the trades at which they work and the places in which they live. Governments have also taken part in the increase, by supporting education, by providing capital and by regulating economic activity. Manifestly, the pace of further advance depends on the amount of public and private support given to science and education and on the skill and energy with which government and business alike work to maintain an environment in which industry and labor are spurred to improve their efficiency.

The second fact which the figures reveal confirms and strengthens this conclusion. The long-term rate of growth of total output has been declining. For the most part, this is due simply to slower population growth and, therefore, slower labor force growth. (The decline in the long-term growth rate of output *per capita* is far less marked.) Productivity growth, on the other hand, has been steady, perhaps even tending to accelerate. It has, therefore, become a more important component of growth output than ever before. Nor is productivity growth due to more rapid growth of the capital stock, for that too has been growing more slowly. The clear implication is that long-term growth has come to depend more heavily on the other elements of productivity change, that is, on scientific advance, on higher levels of education, and on the transformation of industrial and distributive processes.

The more recent, short-term, growth experience of the United States, however, raises still other issues. During the period 1948-55 output grew at the rate of 4.2 percent per year, while during the period 1955-60 the annual rate fell to only 2.8 percent. The latter is not only well below the long-term average, but even slightly below the record for the whole period since 1929, disturbed as that was by the Great Depression. (The recent record would look even worse if carried into 1961, a low year in the business cycle.)

This disappointing performance, however, is not clear evidence of decline in

Percentage Rates of Annual Growth

	1889-1909	1909-29	1929-57	1889-1957
Real net national product	4.4	3.5	2.9	3.5
Persons employed	2.4	1.6	1.3	1.7
Manhours	2.3	1.3	0.5	1.3
Output per manhour	2.1	2.2	2.4	2.2
Capital input	4.0	3.0	1.9	2.8

Adapted from J. Kendrick, *Productivity Trends in the US*

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ability to increase production. The record is complicated by the fact that demand has been growing too slowly to keep existing capacity fully employed. During the years 1948-55 the unemployment rate rose a little, from 3.8 to 4.4 percent of the labor force. Its average level was 4.3 percent. Between 1955 and 1960, however, the unemployment rate rose to 5.6 percent. Its average level was 5.1 percent. (In 1961 it was 6.7 percent.) In these circumstances, output rose slowly in part because of failure to draw all potential manpower into jobs, in part because employed men and machinery were underutilized, in part because investment in labor-saving equipment was discouraged.

Demand-induced retardations of this type are nothing new in the United States. Periods of slow growth lasting for four to seven years have been recurrent features of US development. By contrast with the past, however, Americans need not resign themselves to passive toleration of such episodes and to the painful unemployment that accompanies them. It lies in the power of government to stimulate demand by reducing taxes and by using periods when private demand is slack to carry through more rapidly badly-needed public projects.

MOSES ABRAMOVITZ

Investment for Growth

In 1961 the American economy invested $66 billion, or 8.9 percent of the Gross National Product. (By "investment" is meant Gross Business Fixed Investment, the value of expenditures on new plant and equipment by business firms. It appears in the national accounts as the sum of "construction other than non-farm residential" and "producers' durable equipment.") That is a substantial amount. It is $3 billion less than the nation spent on goods and services for national defense, and $2.5 billion more than consumers spent on durables. Investment in this sense is not quite the same thing as the annual addition to the economy's stock of plant and equipment, because the figure does not allow for wear and tear on existing capital goods. But since the depreciation rate depends mainly on the past, *changes* in gross investment are almost equivalent to *changes* in the rate of growth of the stock of capital.

The volume of investment is important to a modern economy out of proportion to its dollar bulk: (a) it is motivated primarily by expectations of profit in the future, and therefore unreliable, volatile, hard to predict; (b) it is intimately tied up with the distribution of the national income among profits, interest, wages and salaries; and (c) it is a major influence not only on the demand for goods and services today but on the capacity to produce goods and services tomorrow.

Economic growth is a race between the demand for output and the capacity to produce it. For the past six years capacity has tended to pull away from demand. The result has been unemployment and idle factories on one hand, and a slower rate of growth of capacity on the other. When pressure on existing capacity is slack, the inducement to generate still more capacity through investment weakens. And, to close the vicious circle, a failure on the side of investment contributes in turn to weakness of demand. In one view, that is the story of the disappointing recovery that began a year and a half ago.

But it does not follow that *because* the fading of the recovery is attributed to a weakness in investment, *therefore* the remedy is direct stimulation of investment. The gap between demand and capacity could be closed just as effectively in other ways. Increased public expenditure diverts idle men and machines into the production of hospitals, schools or city centers. Lower income and excise taxes or higher transfer payments – unemployment compensation, social security, public assistance, etc. – cause money to flow primarily into consumption goods. In any case, as such newly-generated incomes were spent and respent, much of the impact of the spending would be on items for private consumption. And inevitably, as the gap between output and capacity narrowed, investment would be stimulated indirectly.

Different lines of policy do have different effects on the composition of demand. The greater the direct stimulation of investment, through tax concessions or monetary and credit ease, the bigger will be the share of the national output devoted to increasing and renewing the stock of capital. And the more rapidly the economy's potential output will grow.

There is no doubt that investment favors economic growth as consumption does not. The more broadly investment is interpreted – to include research expenditures, and the building-up of "human capital" through education and training – the truer, and the emptier, that statement becomes. But even in the specific sense in which I have been using the word, a high rate of investment is necessary, if not sufficient, for rapid growth. Nobody can say with any precision how much investment is required to support any particular rate of growth of aggregate economic capacity. My own calculations, which are not extreme, suggest that: (a) the present growth rate of the economy at full employment – about 3½ percent a year – could be maintained with investment at about 9½ percent of GNP, roughly where it is; (b) an increase in the annual growth rate of potential output to 4 percent would require investment of perhaps 10½ percent of GNP, a ratio achieved in 1955-57; (c) an increase in the growth rate to 4½ percent a year would require investment of about 11½ percent of GNP, a ratio achieved during the capital-hungry years just after the war; (d) barring any extra help – earned or windfall – from pure scientific and technological progress, accelerated growth over a long period may require a slow increase in the proportion of the national output saved and invested. It may be that such high investment rates can be achieved and maintained only with the help of some direct stimulation.

But policy for economic growth neither begins nor ends with the stimulation of investment. Anyone who responsibly advocates a high investment rate to spur the growth of potential must also advocate the kind of monetary and fiscal policy which will expand the demand for goods and services in parallel

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with the supply. It is pointless and, in the long run, probably impossible to induce rapid growth of capacity in an economy which wastes its present potential in slack.

The historical record shows that industrial corporations in the United States – this is not the case everywhere – finance nearly all of their capital expansion out of retained earnings and depreciation allowances. They do not often raise money in the open capital markets. Since a market test is probably as good a thing for investment as for shoes, one could wish otherwise. It is often argued that the only way to induce corporations to invest more is to permit them to generate more cash internally: hence liberalized depreciation practices and reduction in the corporate tax rate. I do not think that is the whole story. With a little more imagination in taxation more investment could be generated, if that is desired, *without* any radical shift in the distribution of income. In the Administration's original 1961 investment-credit proposal the beauty of the "excess" provision was precisely that it sought the largest effect on investment from a given revenue concession. It worked, as economists say, on the margin. One could do even more to increase the profitability of investment without necessarily tipping the balance in favor of profits. The original proposal got nowhere in Congress. But then, the country does not seem to be heading for full employment or rapid growth either.

Robert M. Solow

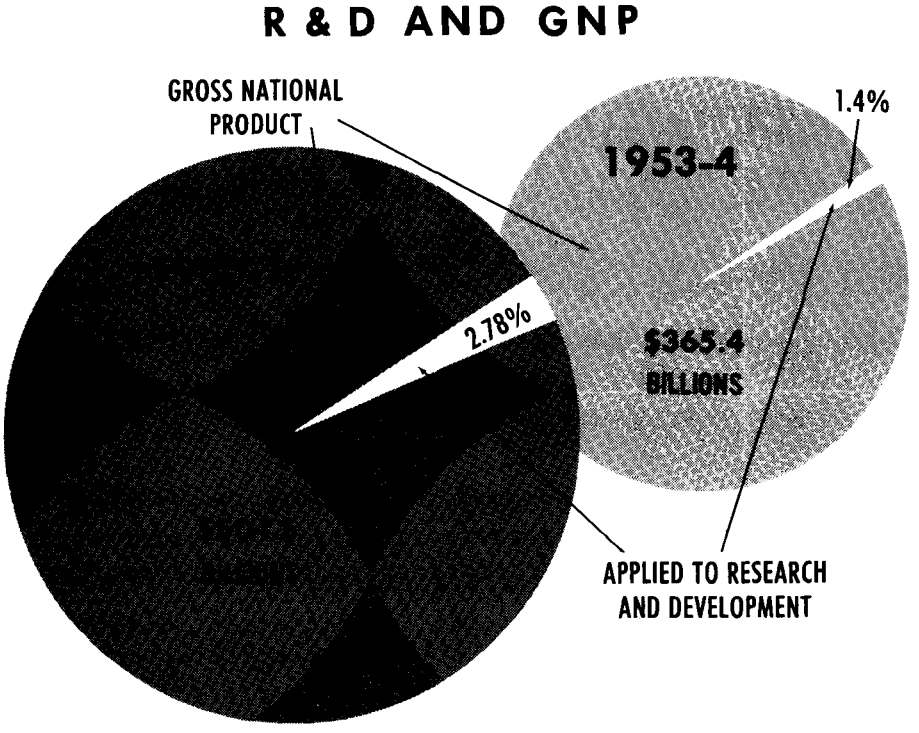
Better R-E-D than Dead

In recent years it has become increasingly apparent that economic development is not the mere piling up of more of the same old things by thrift and abstinence, but a structural process in which people learn how to do things differently and how to make different things from what they made before. One can visualize, indeed, a "knowledge theory of capital" in which material capital is seen essentially as frozen knowledge whose potential is released by the application of the living knowledge of human beings. The accumulation then becomes central to the whole process of development.

The structural process of the accumulation of knowledge-capital in society has three aspects: research, education and development, or R, E and D. Research means the acquisition of knowledge which nobody knew before, or which nobody knew that he knew. Education is the process by which knowledge that somebody knew before becomes more widespread through the minds which comprise a society, replenishing the depreciation of the knowledge-stock by aging and death. Development is the process by which people do things they did not do before, often with things which they did not have before, as a result of new and more widespread knowledge. Without education new knowledge remains in the minds of its original discoverer, and old knowledge decays. Without development knowledge may spread in heads, but does not change things, behavior and organization. Development means that new knowledge must be embodied in machines and instruments, in men and organizations.

The great transition through which man is now passing, which I have described elsewhere as a change from "mere" civilization to post-civilization – to something as different from classical civilization as that was from savagery – is mainly a result of the application of specialized resources to R, E and D. It can be stated with a good deal of confidence that at present levels the larger the proportion of resources devoted to R, E and D by any society, the more rapid will be its economic and social development, assuming constant efficiency in the use of these resources. What is less generally recognized is that an increase in the efficiency of the general R, E and D effort can also have a marked impact on the increase of wealth and welfare. What is again less generally recognized is that R, E and D now pay off better than war, empire or exploitation. The rate of return obtainable today by exploiting nature is an order of magnitude greater than what can be had by trying to exploit man. The survival of the obsolete institutions of war, empire, exploitation and revolution may ruin us all yet, but the best chance of avoiding ruin is still more of the right kinds of R, E and D.

Perhaps the most important question before the US is whether enough, and enough of the right kinds of resources are being put into R, E and D. In research the country is doing fairly well



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in over-all quantity, certainly better than ever before, though Zvi Grilches' study, which showed the rate of return on investment in research in hybrid corn for the United States to be about 700 percent per annum, indicates that the point of over-investment is far from being reached. Education still carries a rate of return to the average student in terms of sheer dollars which exceeds the rate of return on most physical investment, and if social returns are added there seems to be little doubt that there is under-investment in this area, though how much is hard to assess. Under-investment in development is still harder to assess. One suspects there might be over-investment in the development of gadgets and hardware and serious under-investment in the application of existing knowledge to organization, behavior and the learning process itself.

In all three cases quality may be more important than mere quantity. The country is suffering from a massive misallocation of its intellectual resources, in the sense that they are not put into the systems where the problems lie. The major problems lie in social systems, yet only a minute intellectual effort goes into this area; the concentration is in physical and biological systems where the major problems do not lie. Flood control is treated as a problem of rivers, not of people; transportation and urban development as a problem of cement, not of men; agriculture, as a problem of crops, not of farmers; and national defense as a problem of physics, not of nations. The country is like a man in a car without brakes who persistently regards his problem as one to be treated by prayer, psychiatrists, or tranquilizers, while refusing to recognize that he needs a mechanic. It seems certain, therefore, that even without any increase in the total amount devoted to R, E and D, a shift of say 5 to 10 percent of existing resources from physical and biological into social systems would have an enormously high rate of return. Without this, it may well be that the problems in social systems created by the enormous changes in physical and biological systems will be too great, and this society, which is a social system, will not survive.

KENNETH E. BOULDING

People's Capitalism?

The elusive character of the full truth about the extent to which the American economy provides equality of economic opportunity and limits inequality of economic condition is illustrated by the controversy between proponents and critics of its characterization as a "people's capitalism." Proponents cite, as evidence of diffusion of direct and indirect ownership of capital, the facts that the American scene includes 13 million stockholders, 4 million owner-occupied farms and 3.5 million unincorporated businesses, 70 million personal bank accounts, and 115 million life insurance policies. Critics are quick to deny that ownership of a group life insurance policy or even of a few shares of AT&T puts one in the same category with J. P. Morgan, and to point to the facts, seldom mentioned by the proponents, that the lowest one-third of the families and individuals who form the country's spending units (ranked by size of asset holdings) own only one percent of total assets, while the top one-tenth own fully 50 percent of all wealth, including 80 percent of business and investment assets.

Appraisal of this argument is helped by reference to history and to three important trends. There is, first, a trend toward collectivization, or the shift of wealth from individually-owned farms and businesses to corporations and governments. The trend toward more stockholders may therefore merely be offsetting the decline in importance of non-corporate organizations.

Secondly, there has been a dramatic rise in total and average levels of wealth and income in the US. National income at $.5 trillion and national wealth aggregating $2 trillion, corresponding to $2,000 per capita of personal income and $10,000 per capita of personal wealth, are associated with the decline, but not the disappearance, of poverty. A great share of the increase in wealth has gone into household wealth in the form of consumer capital such as housing, automobiles, and appliances. (For instance, in 1961 $47 billion out of $152 billion spent on new tangible wealth items went into consumer capital.) Over the past half-century, because of a steady widening of the ownership of household assets, households have stubbornly maintained the same share (over one-third) of a rapidly growing total wealth.

Thirdly, there has been stability in the over-all distribution of wealth and income which is remarkable in view of the great changes which have occurred in the economic structure and income and wealth levels. The Marxian predictions of inevitably increasing immiseration of the masses and of increasing concentration of wealth under capitalism have both been proved completely wrong by American experience. So far as the careful work of scholars in this field can reveal, there has been only one notable change in income inequality during this century. This change, which was first documented by Simon Kuznets, occurred during World War II, and involved a reduction in the share of income of the upper-upper income groups in favor of the upper middle groups. My own findings show a moderate decline in the share of wealth held by the top two percent of families from 32 percent in 1922 to 29 percent in 1953 and a reversal of the decline since then. The 1950's were years of increasing inequality.

The trend toward equality in wealth-holding which prevailed over several decades occurred because of a lessening inequality in the distribution of consumer assets, including life insurance and pensions. It occurred in spite of no decline in the concentration of business assets. Business assets are today almost entirely held by the top tenth of wealth-holders, who tend at the same time to be the top income receivers and to be engaged in the top occupations – self-employed, professional and managerial.

It is, no doubt, a significant fact that, according to the Survey Research Center of the University of Michigan, the percentage of families who own stock increased from 8 percent in 1950 to 12 percent in 1960. It demonstrates that people in large numbers want to be and will become capitalists, as their incomes and wealth holdings rise. But it remains true that there is enormous distance between the rich and the poor

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– a distance which, if left untended by society, tends to magnify itself from generation to generation. Up to this time we have successfully offset this tendency by educational policies, tax policies and social security. Still ahead of us, however, is any successful effort to raise the share of wealth or income of the bottom half of US families.

It would be delusion of the worst kind if the slogan "people's capitalism" were to lead Americans into thinking that there is no unfinished business on the inequality agenda. However, the slogan will be a constructive one if it frees radicals and reactionaries alike from preconceptions about what is inevitable and what is possible in regard to the inequality of economic condition.

Robert J. Lampman

What to Do With the Drop-out?

About 26 million young workers under 25 – the "war and postwar babies" – will pour into the labor force during the 1960's, competing for jobs with more than 30 million "oldsters" over 45. Unemployment is now severe in both groups, with deficient education contributing heavily to its severity. The school drop-out rate in urban centers zooms. Over this decade, 7.5 million youngsters, a high percentage of them Negroes, Mexican-Americans and Puerto Ricans, will start their job search without high-school diplomas. Yet Department of Labor projections show clearly that opportunities grow fastest in those occupations requiring the most education and the highest skills, and that the proportion of jobs for unskilled workers is dropping sharply.

Estimates of unemployment among out-of-school Negro youngsters in segregated city slums range from 50 to 70 percent. Uneducated and unmotivated, they face a life of frustration. And as Dr. James Conant has observed, no one is accepting responsibility for alleviating their tragic plight. Many of the youngsters officially listed as "drop-outs" have, in fact, withdrawn from school under pressure, though the school authorities publicly deplore the "drop-out problem." Thousands of pupils are transferred from one school to another in an endless effort to shift responsibility for them until eventually many drop out.

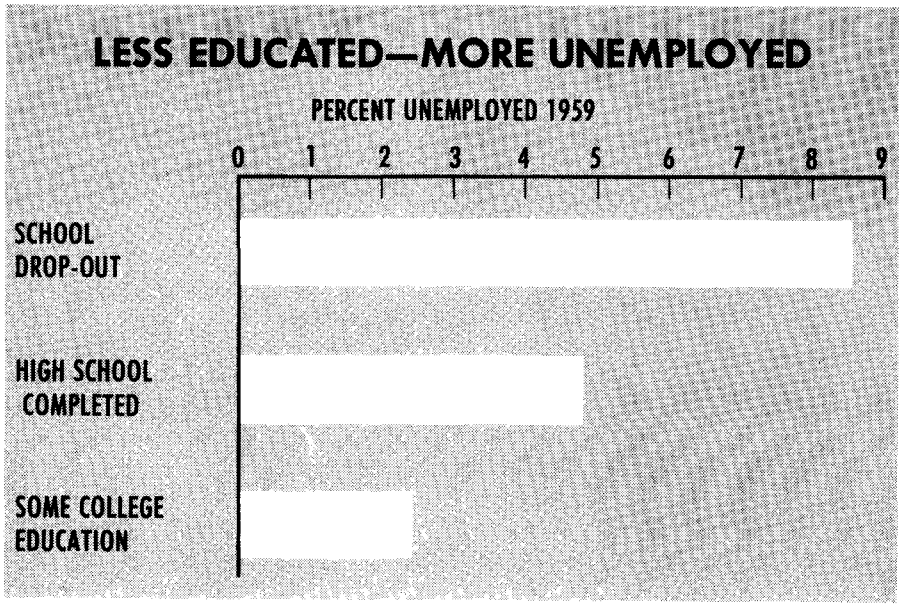
In Los Angeles, with a rapidly growing minority-group population, the six high schools which are *entirely* Negro or Mexican-American head the list in rate of drop-outs. While the reasons for dropping out are many and complex, the drop-out belongs predominantly to a culturally deprived group, comes from a poor family, and is rated low academically. Often he is being raised by only one parent, who must work for a living and cannot give him or his education the attention needed. By contrast, the parents in wealthier parts of the community continuously pressure the schools to provide their children with the best education possible, thus widening the inequality.

In communities like New York City and St. Louis, school boards have initiated far-reaching guidance and counseling programs, with emphasis on a closer relationship between home and school. School systems elsewhere retain their traditional and inadequate policies, assigning large numbers of their low-graded pupils to vocational courses in an effort to keep them interested enough to stay in school or simply to minimize the "burden" on the teachers and administrators.

The issue of vocational training arouses sharp controversy. One widely-held view is that expanded vocational programs will be helpful in reducing unemployment. The new Manpower Development and Training Act, which proposes school and on-the-job training for about one million workers over a three-year period, emphasizes this approach to the drop-out problem.

Realistic and up-to-date vocational training can indeed be of much value. Unfortunately, many of the existing programs fail to meet this standard. Perhaps the key problem, which retraining has met hardly at all, is how to supply needed skills among those workers, young or old, who lack an adequate basic education. Those with a sixth-grade education or less are oftentimes regarded as unretrainable. Even high-school graduates may show insufficient ability to read and write, or perform simple calculations.

None of the training programs, either in the classroom or on the job, reaches enough of the unskilled and semi-skilled workers most in need of help. Less than 25 percent of the skilled workers acquire their skills through apprenticeships; the lesser skilled are hardly aware that such programs exist.



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Despite a few genuine and many token breakthroughs, participation by nonwhites in apprenticeship programs remains insignificant. In California, only about 2 percent of the active apprentices are Negroes.

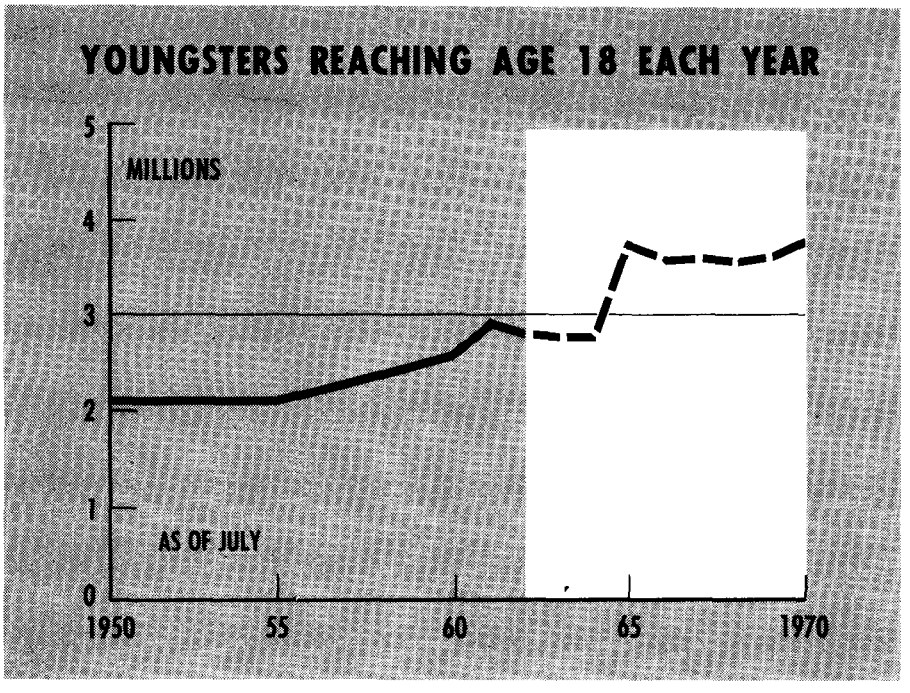
However high the quality of vocational training, it will only aggravate the worker's frustration if the occupation for which he has trained is barred to him when he emerges. The man trained for a specific job may find that technological change or economic recession have eliminated the job, that racial discrimination stands in his path, or that advancement is uncertain because he lacks a rounded education or a college degree. Government, industry and labor together must fashion new techniques for mitigating the impact of technological displacement, retraining older workers, and eliminating discrimination. In this process, a task of the schools, perhaps the most important one of all in the long run, is to transmit the basic skills which will give each worker the versatility and adaptability he needs in a dynamic labor market.

PAUL BULLOCK
ROBERT SINGLETON

Why Unemployment Stays Up

In this century there have been only two previous periods of four or more years during which unemployment both averaged 6 percent or more and continuously equalled or exceeded 5 percent – one was 1908-1912 and the other 1930-1941. Yet since November, 1957, unemployment has averaged 6 percent, exceeding 5 percent in every month but one, and there are disquieting current signs that unemployment may not drop below 5 percent before beginning a new rise. At previous business cycle peaks unemployment has averaged about 4 percent or lower.

Conflicting explanations attribute the stickiness of the unemployment rate to different causes. Some observers attribute it to changes in the structure of the economy, particularly automation and accelerated technological development. They claim that compared to other periods, these changes increase the obstacles to rapid matching of unemployed workers with unfilled jobs. The unemployed either do not have the knowledge or the skills now newly in demand, or are too immobile to seek out the industries, occupations and locations in which jobs are available.



Other observers contend that unemployment has continued high for over four years because total demand for goods and services has been too weak to provide jobs for as high a proportion of available workers as was achieved in prior prosperous years.

In 1961, the Subcommittee on Economic Statistics of the Joint Economic Committee of Congress asked its staff to study the facts and determine, if possible, which explanation best fitted events since 1957. If the records of unemployment and employment for recent years were compared with those for earlier years when unemployment rates were similar – 1949 and 1954, for example – then if the "lack-of-demand" thesis explains recent high unemployment, statistical tests should reveal definite similarities. But if the "structural change" thesis is correct, the behavior of unemployment (or employment) in industries and occupations where there have been important changes in technology or in consumer preferences should differ markedly from earlier years when the over-all unemployment rate was about the same. Furthermore, output per man-hour should be increasing much more rapidly than in earlier periods of similar general economic characteristics.

The study revealed that the slowdown in employment growth and the rise in unemployment has been widespread throughout the economy, affecting industries and occupations in about the same proportions as in earlier years of over-all low demand. In recent years, as in the past, high unemployment has been concentrated among young people just entering the labor force, the unskilled, many minority groups and such industries as durable goods manufacturing and construction. Jobless rates have been lowest among adult men, highly skilled craftsmen, professional workers, and in-service trades.

Furthermore, help-wanted advertisements and records of public employment services on unfilled job vacancies in interstate clearance indicate no unusual piling up of unfilled jobs such as would be expected if structural change was producing more unemployment

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than usual. Output per manhour has been increasing since 1957 at a pace like that in earlier years of similar characteristics. Finally, changes in the occupational and industrial composition of employment were found to be a continuation of trends long in evidence.

To sum up, recent high unemployment has been general throughout the economy, in line with long-established tendencies. The results are fully consistent with the proposition that total demand has been too weak to occupy the available labor force in recent years, and are inconsistent with the thesis that structural changes have significantly increased the average over-all rate of unemployment. The "lack-of-demand" thesis also seems more consistent with the fact that the labor force has failed to increase as much in recent years as increases in the population of working age and long-run trends had led experts to expect: in 1962 the labor force had averaged about 700,000 below expectations. And since the monthly labor force survey is essentially a reflection of market demand, one would expect it to report a lower-than-usual supply after a period of several years of weak total demand and accompanying lack of job opportunities.

Why, then, this weak demand? The economy has been weighed down by a combination of tax, monetary and price policies designed in former years to fit vastly different conditions, particularly to repress excess money demand associated with World War II, the subsequent era of worldwide shortages resulting from wartime devastation, and the Korean rearmament period. If these policies were revised to fit conditions that exist now and are likely to continue over the foreseeable future, high employment, a rapid rate of growth and stable prices based on firm demand could again be achieved. Structural changes in a dynamic economy will always produce unemployment, as in the past. While the proportion now is no higher, and perhaps lower, than in the past, nevertheless programs to reduce structural unemployment through retraining, relocation, area redevelopment, etc., will likewise pay large dividends in higher average per capita incomes, a higher growth rate and a reduction in human misery.

James W. Knowles

Fiscal Policy as a Damper

Of the economic policy tools with which the US Government has been experimenting since World War II, fiscal policy – the joint management of tax and spending programs to promote stability and growth – had the biggest buildup. And its evolution has been the most disappointing.

The doctrine of compensatory fiscal policy – of deliberately running government deficits to augment deficiencies, and surpluses to dampen excesses in private demand – set some kind of speed record on the first phases of its journey from the seminars of theorists to the world of affairs. In the first dozen years of the Keynesian revolution in economics it penetrated not only introductory economics textbooks but the minds of most government economists and many career administrators, White House advisers, Congressional staffers and legislators. It was reflected in the Employment Act of 1946, was espoused by organized labor and much of organized agriculture, and had many distinguished adherents within the business community.

Observing all this in 1948, it would have been hard to believe that 14 years later the American economy would be completing a half decade of "high-level creeping stagnation" or that, with an unemployment rate above 5 percent and likely to rise, a Democratic President and Congress would have just postponed a general tax cut. It would have been hard to believe that in 1962 the young fiscal policy giant – still burly beyond doubt – would be enervated by a mixture of new and old inhibitions.

Such a comment, of course, may be too impatient. The Presidential documents of this Administration have broken new ground in candidly asserting the positive desirability of deficits under certain circumstances. And never before this year has a president of the US Chamber of Commerce called for a general tax cut *without* a corresponding reduction in government outlays. The seepage of learning continues.

Moreover, fiscal decisions have turned out to be more complicated than the early Keynesian prescriptions suggested. Since 1948 the country has become concerned about the inflationary biasis implicit in many of its price and wage-making institutions. These are rooted in the supply rather than the demand side of the market; they can be eliminated by fiscal or other aggregate-demand policies only via heavy losses of output and employment. Indeed, continued economic slack may actually aggravate the kind of inflation that comes from the pressure of rising costs upon prices, because in many industries costs go up as the volume of production dwindles. Yet preoccupation with inflation has made many gun-shy of expansionist fiscal policy.

Since 1958 the balance of payments problem has been added to existing fiscal inhibitions – with even less logic since at full employment American productivity is higher and grows faster, and strong productivity growth is the best medicine for the US long-term payments balance. But there is fear of the gimlet eyes which European bankers are said to fix on American government deficits.

Furthermore, the very mechanics of fiscal policy have proved unexpectedly complex. US legislative machinery is too cumbersome to make fiscal adjustments that are well enough timed to match cyclical swings in business conditions. One alternative, first seriously proposed this year but not as yet accepted by the Congress, would be to empower the President to *time* significant changes in tax rates and expenditures. But the main solution to the timing problem to date has been the strengthening of the automatic or "built-in" stabilizers – notably the progressive personal income tax – that cause countercyclical fluctuations in tax collections and spending.

The automatic stabilizers have performed well. But latterly it has appeared that they can have a perverse long-term effect if left untended. In particular, a progressive personal income tax structure, if its rates are left unchanged, raises the tax take at full employment in comparison with GNP at full employment; it likewise gets out of line with probable trends in government expenditures as the econ-

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omy grows. In such circumstances, the automatic stabilizing mechanism begins to exert an anti-cyclical braking effect farther and farther short of full employment; it did so in 1959-60 and is beginning to do so again. Right now a dose of the needed remedy – namely, periodic *permanent* reductions in tax rates – is so long overdue that the Administration has probably been right to concentrate upon obtaining it rather than temporary anti-recession measures, even though this means waiting until next year.

However, one can go too far in excusing the timidity of the resort to expansionist fiscal policy in recent years. Many of the inhibitions to action have been essentially neurotic. The inflation and balance-of-payments issues have become fresh outlets for the public's deep visceral prejudices against deficits and public indebtedness. The tenacity of these phobias has, in its way, been the really striking feature of the later postwar years. Assault by a half-generation of college teaching has left them remarkably unscathed. They remain hallowed in most Congressional, business and editorial thinking. President Kennedy himself, for all his erudition, is not free of them.

In fiscal policy, therefore, a still newer economics for the Sixties is not needed nearly as much as a rededicated effort to apply some economics that Americans already know but refuse quite to believe. The central proposition that cries out for better implementation is simply that vigorously expanding aggregate demand in an economy like this almost always solves many more problems than it creates. But application of this principle is possible only through an aggressive, risk-taking public educational program spearheaded by the President of the US.

JOHN P. LEWIS

Monetary Policy as a Lever

Far too much time and talent have been devoted to argument over theoretical niceties of various monetary approaches and too little time and effort devoted to testing alternative theories against accumulated historical evidence. Unless it can be established beyond reasonable doubt that monetary change does affect economic activities in a predictable fashion, it is meaningless to talk about a monetary policy designed to facilitate achievement of widely accepted social objectives such as high employment of resources and price stability; one cannot know what monetary action should be taken under particular circumstances.

A confident consensus as to the effect of monetary change would provide valuable guidance on such controversies as:

1. How is monetary change best measured – by interest rates or by the money supply?
2. Is the lag and variability in monetary policy so great as seriously to limit its usefulness as a stabilizing tool?
3. Is monetary policy unimportant as a demand generator during recession; by that I mean, is it analogous to "pushing on a string"?
4. Can monetary policy halt inflation without generating recession?
5. Can monetary policy successfully serve two masters, *i.e. internal* objectives such as high employment of resources and price stability and *external* objectives such as the balance of payments and gold flows?

The most careful and exhaustive recent study of the effects of monetary change has been conducted by Professor Milton Friedman and associates of the University of Chicago: the Commission on Money and Credit will shortly publish their book, "The Relative Stability of Monetary Velocity and the Investment Multiplier in the United States, 1897-1958." It presents the strongest available evidence of the close and consistent relation between the stock of money and income, and between changes in the stock of money and income. The data support the view that the quantity of money matters more than interest rates because:

1. Changes in the quantity of money do result in substantial changes in income, prices and employment;
2. The relationships between the quantity of money and other assets and income are relatively stable and, therefore, the effects of changes in the stock of money are to a significant extent predictable; and finally,
3. The quantity of money can be controlled within narrow limits of monetary policy.

Some of the policy implications which in my judgment follow from the study are:

1. Monetary change and hence monetary policy is an extremely potent economic tool capable of either increasing or decreasing total spending. Excessive monetary growth when the economy is fully employed can lead to increased spending and inflation. Too little money and liquidity is capable of reducing spending and initiating an economic decline.
2. The use of monetary ease for inducing expansion in total spending is not analogous to "pushing on a string" but is more nearly like "pushing a ramrod"!
3. Large variability in monetary expansion should be carefully avoided since business fluctuations appear to be more closely associated with changes in the money supply than with the level of money supply.
4. Adapting monetary change to the current economic trend may frequently prove inadequate and destabilizing because of lag and variability in the effect of monetary change upon total spending. Only when the future lag can be predicted can the policy be fully stabilizing.

Careful monetary research has the potential for continuing to narrow the areas of dispute and thereby provide invaluable guidance to policy makers.

A current problem of growing urgency has arisen because, due to the loss of monetary gold in recent years, monetary authorities can no longer ignore the effects of monetary policy upon the balance of payments. Under the old gold standard there was a built-in regulator that tended to restore balance of payments equilibrium by forcing internal change upon employment, income and prices. After World War II an international monetary mechanism was built which maintained fixed exchange rates without an adjustment mechanism but with a system of loans through the International Monetary

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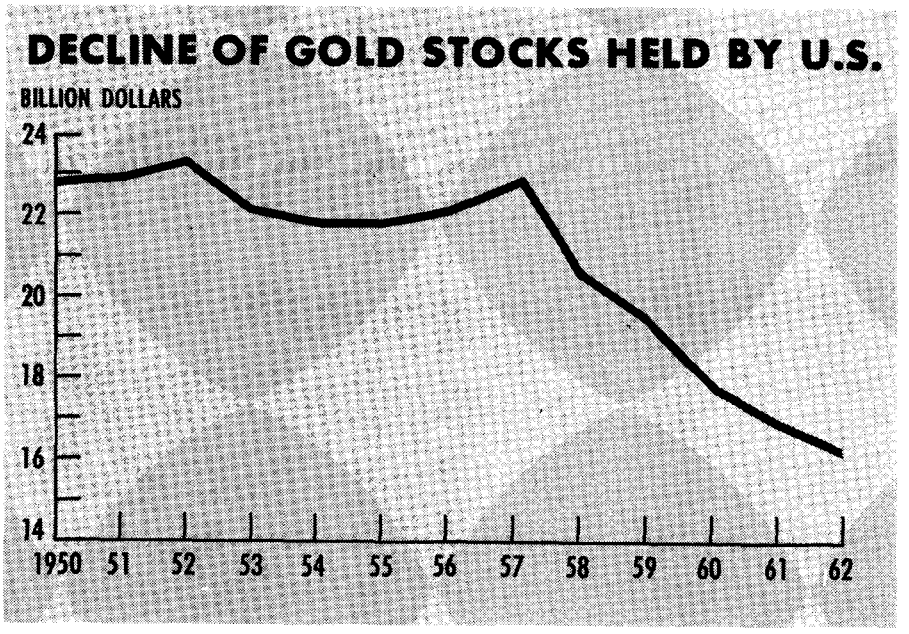

Fund. It is not surprising that this fixed system between countries of differing growth rates and different rates of inflation allows persistent balance of payments disequilibrium. A major objective of the 1960's is the molding of an international monetary system capable of achieving and maintaining balance-of-payments equilibrium without at the same time forcing internal inflation and deflation.

The proper solution to this country's current payments deficit is not, as many suggest, monetary restraint and higher interest rates when the economy is already sluggish. The experience of the period that began in 1931 indicates that the result would be internal deflation and increased unemployment of resources; the "cure" would be worse than the disease!

Beryl W. Sprinkel

The Individual Firm

The Great Depression served to intensify management's search for methods whereby the individual firm could contribute toward the abatement of the business cycle. From this heightened interest and study emerged such managerial measures as capital budgeting, long-range planning and the countercyclical phasing of private investment programs. These and other prevalent business practices have contributed significantly toward the shorter duration and more limited amplitude of business contractions since World War II.

Even so, the belief is still widespread that there is little, if anything, a single enterprise can do to prolong prosperity or reverse recession. But the record, particularly in terms of the regularity of private investment, is in striking contrast to this view. In no postwar year has the annual rate of private capital formation dipped below 12 percent of the Gross National Product; in the interwar period the corresponding figure ranged from as little as 1.5 percent in 1932 to over 15 percent in 1929. Visualize the impact of cyclical swings of such dimensions upon such capital-goods producing centers as Pittsburgh, Cleveland and Detroit. The phasing of private investment over the postwar cycle is historic as an anti-recessionary development of major magnitude; it has helped reduce the periods of recession to a postwar average of about 10 months compared with 20 months for the period 1854-1961.

The somewhat pedestrian performance of the economy in the Golden Sixties has sharpened interest in national economic growth in much the same way that the Great Depression spurred analysis of cyclical problems. In many instances, individual company profits and sales have fallen below the projections made at the start of the decade. This shortfall relates to a Gross National Product that is currently lower than was anticipated by corporate model builders, rather than to faulty estimates of the share of the national market to be accounted for by the given industry or company. As a result company economists have been re-examining the warrant for the prevailing "optimistic" models of national economic activity built for 1965 and 1970 – "optimistic" at least when viewed against the below-average rates of growth of 1960-1962. (Similarly "optimistic" was a recent poll of the Business & Economic Statistics Section of the American Statistical Association: When asked if they had altered their own economic models for 1970 on the basis of actual performance thus far in the Sixties, only 10 percent indicated they had cut back their projections; twice as many had raised their estimates, while the remainder had left their earlier models unchanged.)

Business confidence in the nation's long-run economic future, as manifest in its investment program, has stood up well against such vigorous tests as the recent collapse in equity markets and the Kennedy-Blough civil war as well as the current inadequate national growth rate. Latest surveys of capital appropriations of the thousand largest manufacturing firms reveal, for example, that cancellations in the second quarter, when the winds of change were stormiest, were actually lower than in the first quarter. Few, if any, business leaders touched the panic button in the array of switches subject to executive control; others who had pressed the caution button governing further expansion plans are now again looking to the long pull and stepping up their program of innovation. Witness recent announcements in the steel industry where, despite the ebbing of profits, Bethlehem Steel will increase its capital expenditures from $150 million currently to $175 million in the year ahead; United States Steel will begin immediate construction of a new

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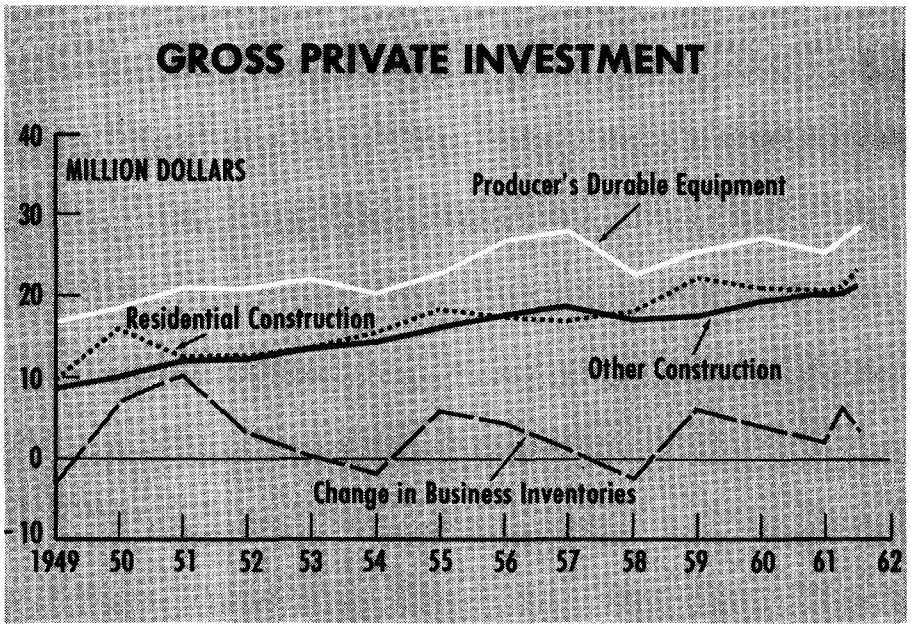
cold rolled steel mill, the "largest and finest" in the world, at an estimated cost in excess of $55 million.

More rapid technological innovation then is the first and perhaps the most important single step in the series of measures being undertaken by the individual enterprise to speed up its own rate of economic growth – and thereby concurrently to benefit the national rate. Both business and consumers are now well stocked with durable goods of all types. The market potential is greater than ever before for the producer of capital goods who, through a major break-through, can render obsolete much of today's overhang of excess (high-cost) capacity in his particular industry – or the producer of consumer durables who, through an equally impressive product change (compact cars; transistor radios; hi-fi), can reactivate a market that is seemingly saturated or inert.

Accelerated innovations mean, in turn, greater private outlays for that research and development to which Kenneth Boulding gives such emphasis – the second step toward more rapid growth. The rising expenditures by private industry for these purposes, including sharp advances in funds spent for basic research, should favorably influence national economic growth rates.

A third form of sustained effort to raise the growth rates of the individual firm is through broader participation in world markets. Much of the free world is still in the "catch-up" stage in which the United States found itself following World War II. US producers have helped to make up the great physical arrearages abroad of consumer stocks and industrial capacity. Now as total world trade rises and along with it the levels of living around the globe, the enterprising American firm is expanding its market boundaries accordingly.

Finally, today's business manager has studied the demographic time clock. He is aware of the huge market that will arise as the postwar baby crop matures and comes of working-force age within the next few years. As these youngsters mature, the demographic balance should swing in the direction of more rapid economic growth; company after company is now studying intensively what it can do to assure that today's dependent young will be increasingly transformed into tomorrow's highly productive labor resource.



Private industry is thus already actively engaged in accelerating its, and thereby the national, rate of economic growth. Its contribution in more recent years has been restrained by a high corporate tax rate and an archaic treatment of depreciation. The greater the degree of popular awareness of these restraints, leading to their correction or renewal, the more rapidly the high and sustained rates of economic growth that have traditionally prevailed in the United States should be resumed.

MARTIN R. GAINSBRUGH

The Individual Union

For the American labor movement, the past six or seven years have been years of frustration. So-called high level stagnation has inflicted more damage upon manual workers than upon any other section of the working population.

Fresh from a collective bargaining success in which his union had established a nearly fully guaranteed annual income for experienced automobile workers, major improvements in health insurance and pensions, as well as a substantial wage increase, Walter Reuther, Chairman of the AFL-CIO Economic Policy Committee nevertheless spoke in grim tones to the 1961 biennial AFL-CIO Convention of the limited effectiveness of collective bargaining in reducing unemployment:

> "I know and you know that you can't solve mass unemployment at the bargaining table. The dimensions of the problem are great and complex, and the problem will respond only to massive action by the whole of our society. What we do at the bargaining table must be shored up by affirmative action on the part of government. We all know what is happening on the technological front. We have to run like hell to stand still in our fight for jobs."

Reuther sounded this note even though, in the face of accelerated technological advances leading to heavy layoffs, plant shut downs and job changes, many AFL-CIO unions have reacted with imagination and ingenuity at the bargaining table. They have negotiated supplementary unemployment benefit payments for temporarily laid-off

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workers, severance pay for those permanently laid-off, company-paid moving expenses for workers and their families confronted with plant shut downs, and early retirement options for technologically displaced older workers.

In the Armour meat packing company, unions and management, aided by educator-economist Clark Kerr, launched a full-scale attack on the human effects of changing technology and plant location. Plans were made to retrain workers and the company also agreed to pay the cost of moving workers to new plants when operations were shut down in older, obsolete plants. At one point Armour agreed to transfer workers who had been displaced from an old Oklahoma City plant to a newer Kansas City operation. Half of those who were offered this chance responded favorably; but just as the move was readied, the employment situation in Kansas City declined sharply and the offered jobs disappeared. Similar efforts to retain workers for jobs in other industries in Oklahoma City were unsuccessful in the face of diminished industrial employment opportunities. After two years of efforts to deal with technological unemployment in a single company, the Armour committee had to conclude:

> "Collective bargaining by itself cannot solve these problems. Most important of all is the rate of economic growth which depends on a combination of private initiative and public policy. This growth must be fast enough to absorb the currently excessive unemployment, the rapid additions to the labor force, the workers displaced by modernization in an increasing number of industries, and the increasing productivity of workers not displaced. Growth adequate to meet these needs is the essential prerequisite to the orderly social development of the nation."

Much the same conclusion would probably apply to most other labor-management efforts to deal with shrinking employment situations. Fundamentally, as one labor leader has ruefully remarked, "Even good collective bargaining can't make two jobs where only one exists."

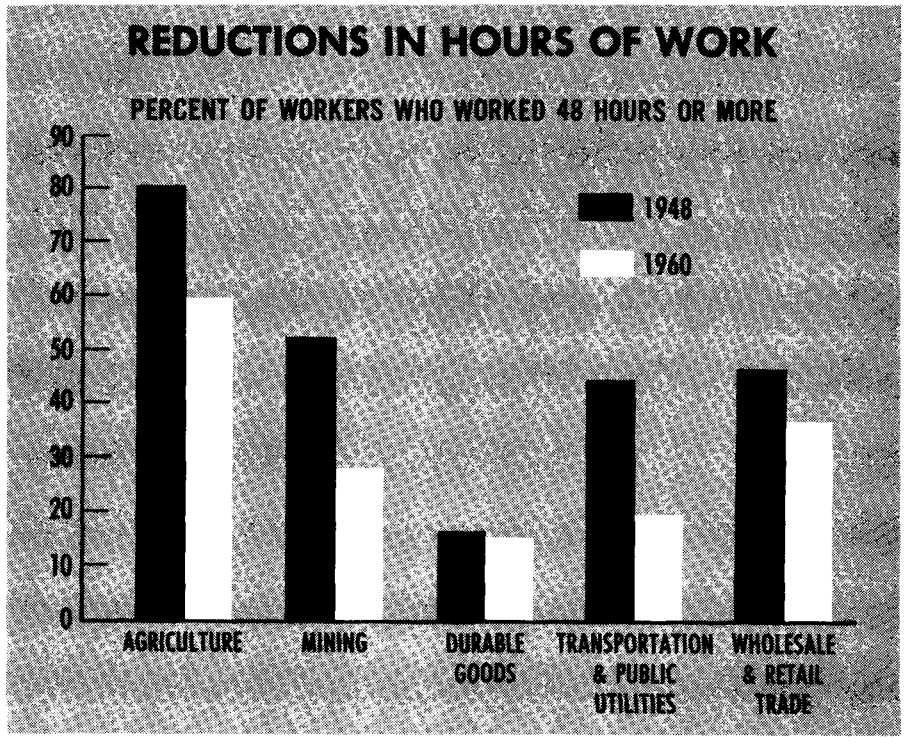
Organized labor has long since understood the economic limits of collective bargaining and the necessity to move on the national economic front to influence the general employment picture. Labor's lack of success at the national policy level cannot be blamed on its failure to take an advanced position on these matters. By 1958-59, well ahead of both governmental and university economists, the AFL-CIO called attention to the fact that recovery from each of the short, postwar cycles was leaving a level of unemployment far in excess of what even conservative economists would accept as full recovery and full employment.

In the spring of 1961 and early in 1962 when President Kennedy's Council of Economic Advisers was making rosy employment projections, AFL-CIO staff economists doggedly insisted there was no evidence to indicate unemployment would go below 5 percent. Early in 1961 the AFL-CIO urged the Administration to work for an immediate suspension of the personal income withholding tax for three months. The $5 billion of additional spending which this would have provided, when added to the increases in government outlays which the Kennedy Administration did effect in 1961, could have led to a much stronger recovery in 1962 – a recovery in which unemployment might have been lowered to the Administration's goal of a 4 percent rate.

At its December, 1961, Convention the AFL-CIO renewed its plea for discretionary Presidential power to cut taxes and to increase public works spending when needed to offset an economic dip. A special resolution called for programs to help America's lowest income families – all but a few of whom are *not* AFL-CIO members.

Recent issues of the AFL-CIO's monthly *Federationist* have been almost overloaded with articles pointing to the necessity for a more liberal monetary policy, fundamental tax reform and a bolder approach to the balance-of-payments problem. The AFL-CIO has backed the President's trade policy even in the face of nagging criticism from those few unions whose unemployment problems have been somewhat accentuated by foreign trade competition.

The continued conservative mood on the part of Congress and on the part of many millions of Americans, a conservative mood which blocks serious consideration or affirmative votes on major economic reform issues, has forced labor to concentrate its legislative efforts on relatively minor meas-



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ures: Instead of waging an all-out struggle on behalf of a $5 or $10 billion tax cut to stimulate the economy, labor and the Administration had to struggle to put through a $400 million Area Redevelopment Act. After the Administration's modest request for discretionary powers to step up public works in a future recession, pressure from the AFL-CIO did lead the President to support a $900 million program for this year; but what was patently required was an annual public works outlay of $3 billion or $4 billion. Labor had to fight with its back to the wall to preserve the special unemployment compensation provisions of the foreign trade bill; but the crying need is a system of federal unemployment insurance standards which would raise benefits to 50-60 percent of wages for all unemployed workers, instead of the present average of around 30-35 percent.

The nation's general economic stagnation has been fairly plain to see in recent years, but many occupational groups still have had relatively smooth sailing. The bite of unemployment has been principally confined to industrial workers. In the recession of 1958, for instance, unemployment was over 20 percent for auto workers and almost 10 percent on the railroads, while for finance and insurance workers it was only 2.9 percent. In 1960 when 8 percent of all semi-skilled blue collar workers were unemployed, the corresponding rate for stenographers and typists was 3 percent and for professional employees 1.7 percent.

The sharp stock market break of this past spring probably struck harder at middle-class America than the recent stagnation; general social uneasiness now seems to be somewhat on the increase. As for organized labor, there are signs that in the face of its economic frustration on the national legislative front, it is turning back to more traditional demands to find answers to persistent industrial unemployment. At its August, 1962, meeting the AFL-CIO Executive Council hammered on the theme of a shorter work week. AFL-CIO President George Meany gave a new urgency to this old and honored demand of organized labor when he insisted that with "a 35-hour week today, we would have hardly any unemployed," and that labor was setting this goal "because nothing else had been done" about unemployment.

For a breakthrough on some of the larger economic policy issues, it now appears that the next real opportunity for both labor and the Administration will probably be postponed until the next recession, which seems to be "scheduled" for sometime in 1963.

EVERETT M. KASSALOW

Has Europe's Success a Moral?

The economic success story of virtually all the nations of Western Europe in the past decade can be rather easily used to prove the correctness of either the economic theories of the National Association of Manufacturers or those of the most daring liberals.

If ever a high level of profits has proved to be the "motor" for growth and expansion that it is so fondly proclaimed to be by the NAM, it has been in contemporary Europe.

Yet, if ever a high level of government spending and high taxation has failed to deter growth, it has been in Europe. If ever growth of the public debt, as defined in the United States, has proved to be non-inflationary, it has been in Western Europe.

There is no need to waste time and space citing measures of European success: Full employment everywhere but in Italy, where unemployment is declining; rates of growth of GNP about twice those of the United States (except in Britain, the big exception); balance of payments comfortable and gold reserves rising; rapid increases in wages with, so far, only a modest dose of "creeping inflation."

Are there lessons in this performance that can be applied to the difficulties of the United States?

The first thing that must be said is that "Europe" is still a group of individual countries. And at first glance, they could scarcely seem to have pursued since World War II more strikingly different economic policies.

Belgium has had the biggest budget deficits and yet the slowest growth and the least inflation; France has grown with inflation while Germany has grown without it; the Netherlands has grown while retaining price and wage controls while the others have abandoned them except for some vestiges in France and Norway; France has used "planning" while Germany has avoided it like the plague and Italy is just about to begin it; France, Germany and Italy have grown with fairly high long-term interest rates, while Switzerland and the Netherlands have grown with low rates; Germany and Austria could attribute much growth to recovery from war damage, but Sweden has grown without that "incentive"; a few countries normally operate with balanced budgets, even by American definitions, and they grow, while others grow with regular small deficits. And so it goes.

Thus it is not easy to draw lessons for the United States from the European performance. Nonetheless, there are several "constants" that can be discerned in this bewildering pattern.

The first is negative. Europe has *not* succeeded because of a conscious, purposeful use of budget deficits to spur expansion. This really proves little other than that expansion was proceeding and demand was adequate without the deficits. Informed Europeans, of varying political persuasions, believe a sizable deficit is undoubtedly appropriate for the United States in current conditions. But in Europe, deficits have been small and financed out of savings; they have not existed because of a desire to stimulate the economy, but, more often, simply because of the way budget accounting works in Europe.

Big deficits would undoubtedly be used without qualms if there should occur a serious slump in aggregate demand, but that has not normally been the problem.

The other general conclusions are more positive.

The first is that up to the present, in one way or another, conditions have existed in the European countries conducive to a very high level of corpo-

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rate profits. And this in turn has been the great inducement, and part of the source of finance, for the high rate of investment in new plant and equipment, which in turn has played the essential role in high growth rates and full employment.

In Germany for a long time the stimulus was derived from unbelievably liberal depreciation allowances under the tax laws. In France, for a long time it was classic inflation, in which profits usually rise faster than other incomes. In Italy, it was repressed wages stemming from unemployment.

In nearly all European countries the *direct* tax burden on corporations – and on individuals as well – is less than in the United States. The enormous value of public spending, higher than in the United States in most countries by most measurements, has been covered by a far greater reliance on *indirect* taxation which, regardless of the stage of the production and distribution process where it is levied, has its effect through higher consumer prices.

In short, all over Europe the effect of tax policy, relatively speaking, has been to "soak the poor" and to permit a high level of profits after tax. If the NAM rejoices, sobeit.

Second, up until very recently, European currencies have virtually all been slightly undervalued. This is just a way of saying that the exchange rates of the mark or the lira or the guilder against the dollar did not correctly reflect relative cost and price levels. In practice, this meant that once capacity was available, exports were relatively easy to sell. The European countries could quote highly competitive prices, still at a profit, and they thereby built up their exports rapidly.

The crucial importance of such a relationship among currencies was twofold. First, exports themselves were an expansive factor in the economy. When a country like Belgium exports 40 percent of its output, the importance of this sector is easily seen. In Germany the figure is about 20 percent, compared to only about four percent in the United States.

Second, the successful export performance has meant that for most countries at most times in the past 10 years the balance of payments has not been a problem. And this in turn has meant that governments were not forced to take severely restrictive measures limiting demand at home through the budget and monetary policy. The big exception is Britain.

The British growth performance has been fairly dismal, partly because of recurring doses of fiscal and monetary restraint.

Next, it can hardly be denied that the "catchup to affluence" has played some role. The one thing of which European producers could be certain was that saturation of consumer goods had not reached anything like the level of the United States. The subject is extremely tricky and debatable: it is clear that "saturation" in the US applies largely to consumer durables, not to consumer desires in the aggregate. But so many Europeans believe that this factor was an important force in their recent economic performance that it cannot be entirely dismissed.

Finally, prosperity breeds prosperity. Full employment means high incomes means high demand means high profits means high investment means full employment. The "benevolent circle" has been at work on the eastern shores of the Atlantic. The main task of governments has more often been to apply mild brakes than to apply stimulus.

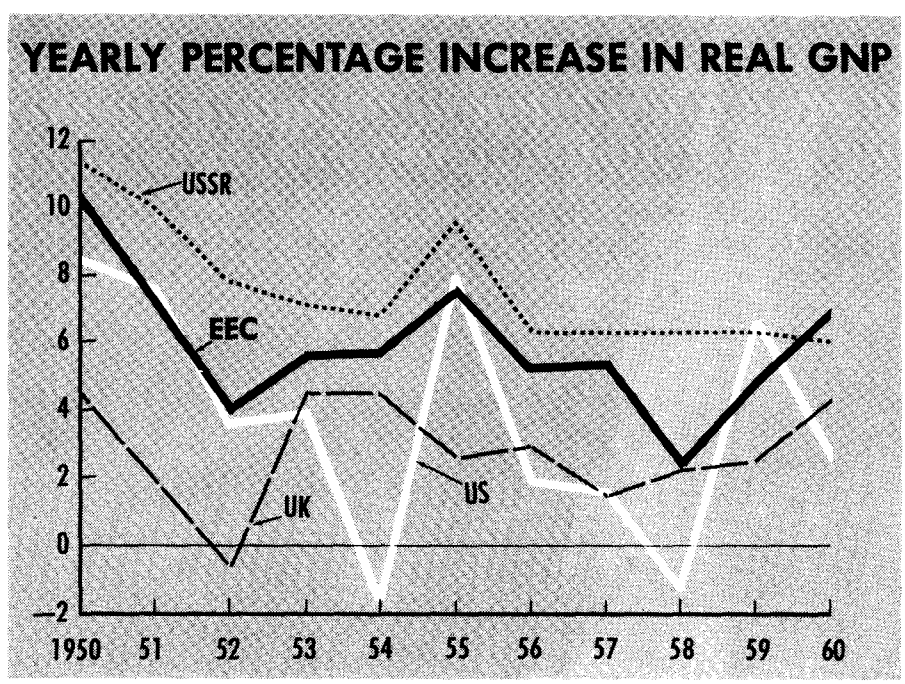
Two final thoughts must be added.

First, many of the conditions that favored the impressive European performance are changing. Profits are at last beginning to feel a squeeze, as wages rise faster than productivity, and competition, stemming in part from free trade and in part from the huge expansion of capacity, limits the possibilities of raising prices. The undervaluation of European currencies relative to the dollar may now be a thing of the past. The possibilities of new labor supplies are increasingly limited – whether drawn from unemployment, refugees or movement from the farm.

Thus, while further satisfactory growth is both possible and likely, the dazzling performance of the past 10 years may well not be repeated. Indeed there are some signs that Europe may be heading into a period of difficulty similar to that of the US.

Second, with some exceptions such as tax policy, it is doubtful that the United States can usefully "copy" much in Western European experience to solve its present problems. The reason is that the main US problem since about 1957 has been one of insufficient aggregate demand, both caused by and contributing to an insufficient level of investment. In Western Europe investment has been running strong, and almost everything else has flowed from that fact.

Edwin L. Dale, Jr.



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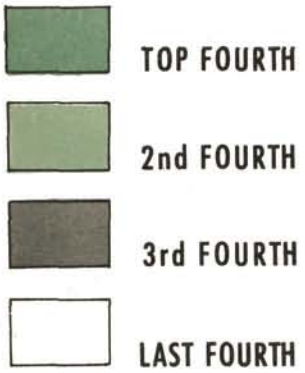
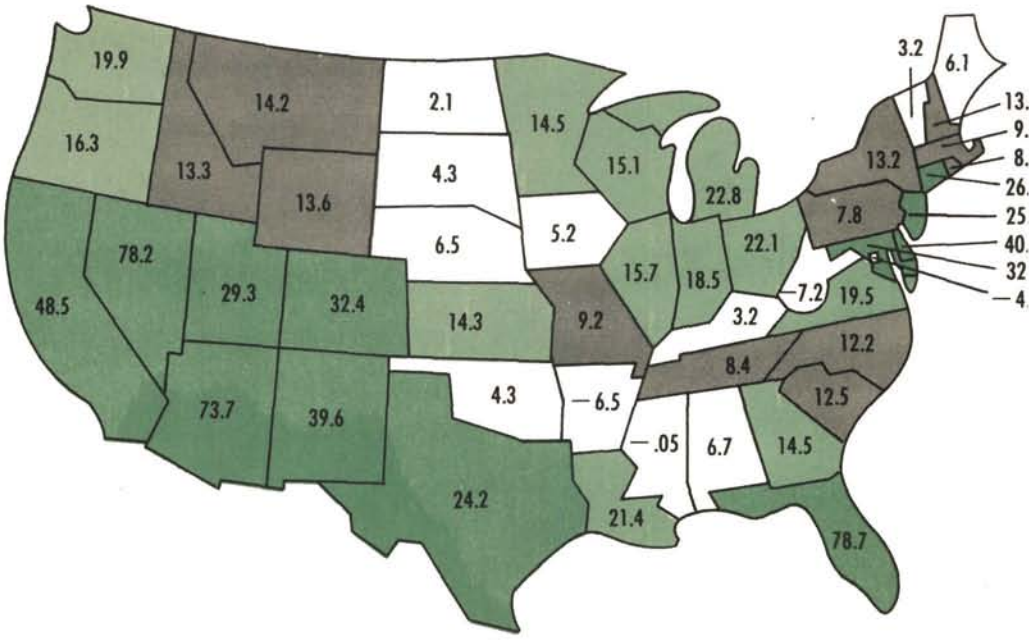
CHANGING FACTS

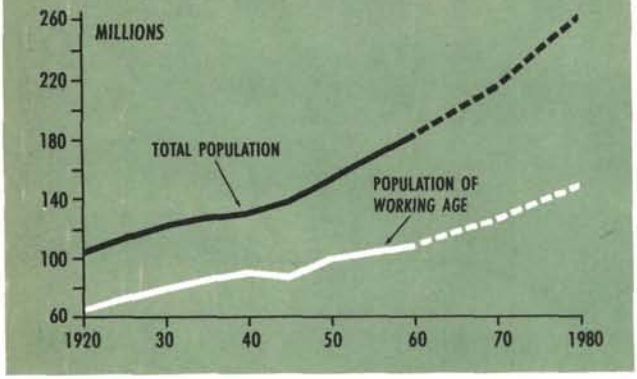
POPULATION: PERCENT INCREASES 1950-1960

Total U.S. — 18.4



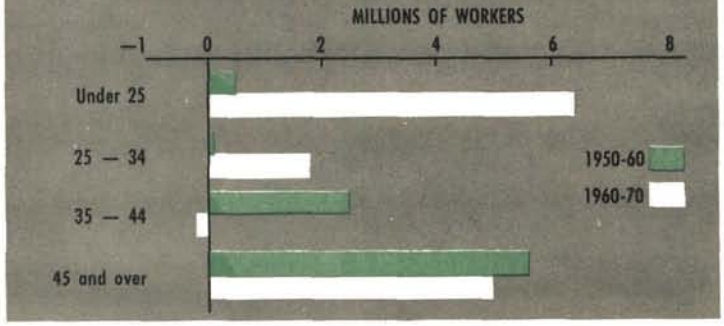


TOTAL POPULATION AND THOSE OF WORKING AGE



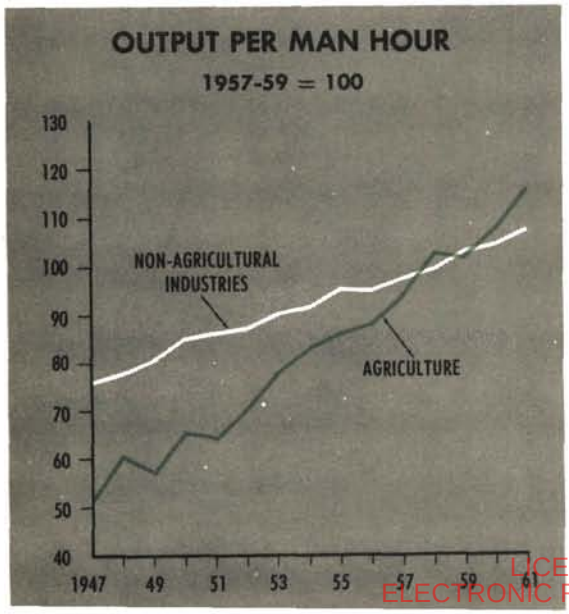
CHANGES IN THE LABOR FORCE

CHANGES IN THE NUMBER OF WORKERS IN EACH AGE GROUP
1950 to 1960 AND 1960 to 1970

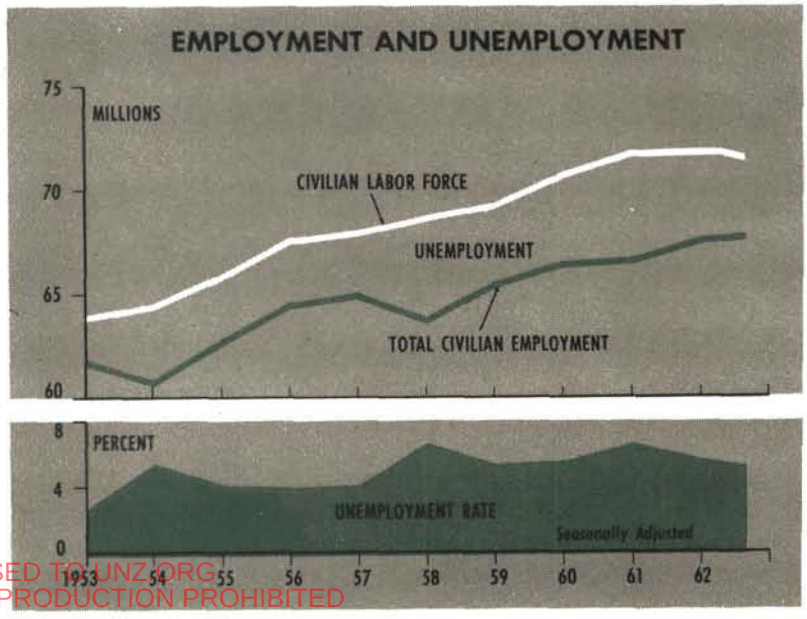


OUTPUT PER MAN HOUR

1957-59 = 100



EMPLOYMENT AND UNEMPLOYMENT



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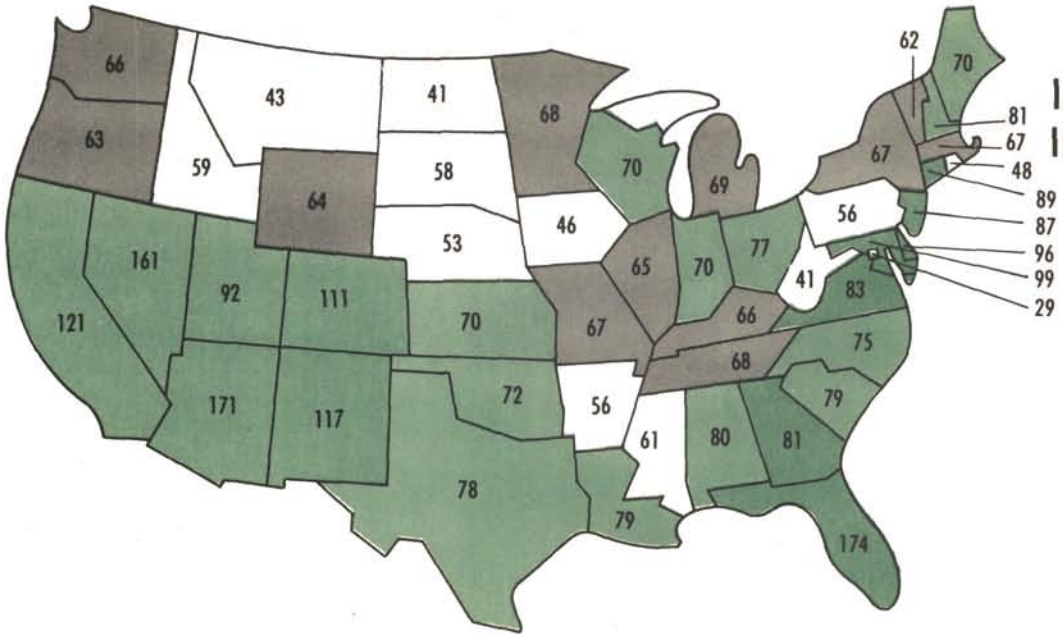
CHANGING FIGURES



INCOME: PERCENT INCREASES 1950-1960

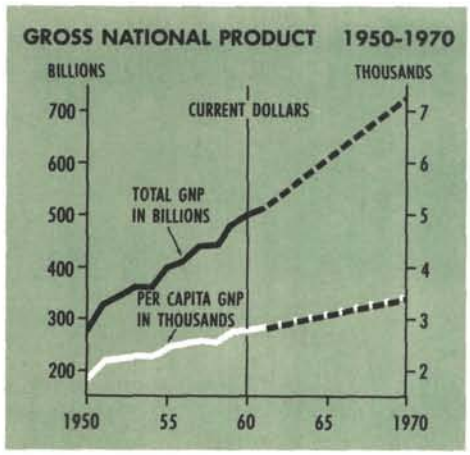
Total U.S.—76

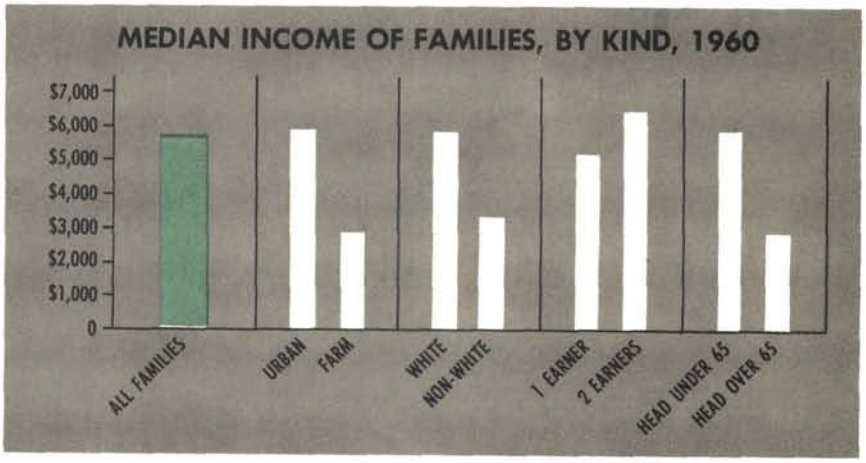
TOP FOURTH

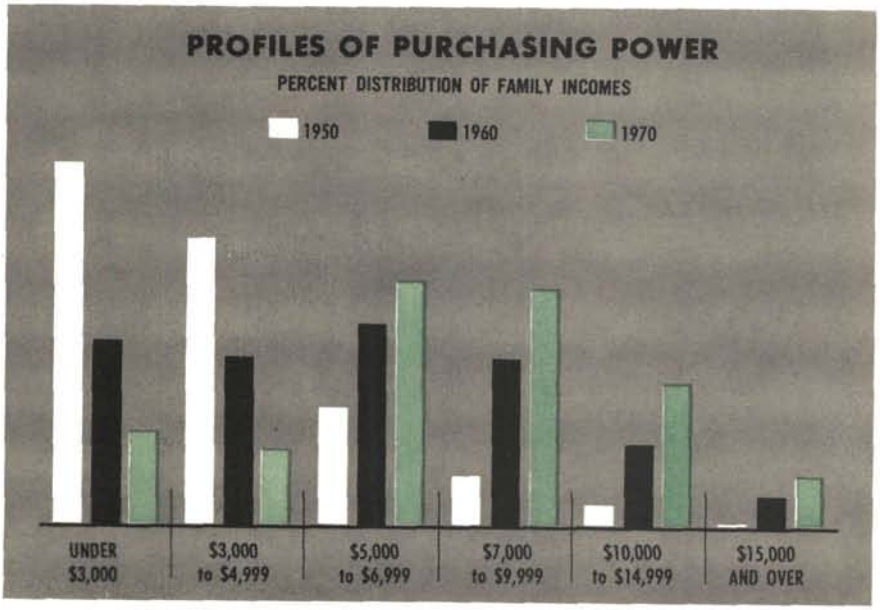
2nd FOURTH

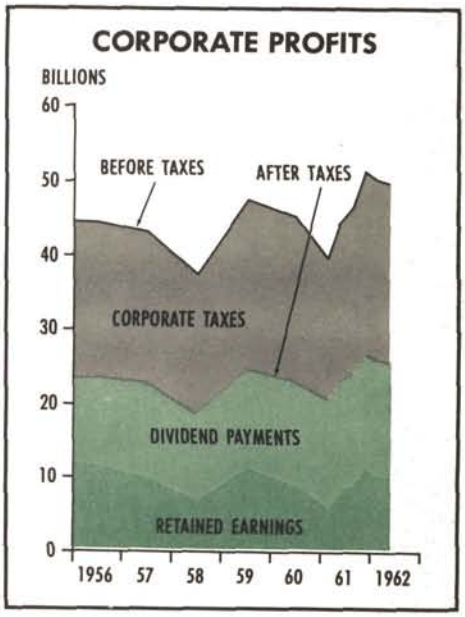
3rd FOURTH

LAST FOURTH









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COMMENT OF A KEYNESIAN

A quick survey of the papers in this special issue will, I think, disclose four economic goals of liberal economic thinking in the United States today. They are not new. And indeed the papers, while canvassing effectively the issues involved, do not suggest even remotely the emergence of a new economics. But no matter. I agree fully with Professor Lewis that the urgent need in the Sixties is better implementation of what we already know.

The four economic goals are:

1. Full employment of capital and labor resources;

2. A rate of growth reasonably commensurate with domestic needs and international obligations;

3. Lifting the standard of living of the *submerged tenth* of the population much closer to the high *median* standard that prevails in the United States – a program that particularly involves the unemployed teen-agers, the racially discriminated minorities, the mass of unskilled workers unequipped to meet the demands of modern industry, the millions who earn a poverty-level income, live in substandard houses and lack the basic elements of education (see the articles by Lampman, and by Bullock and Singleton);

4. Correcting the imbalance between the general private affluence of the great majority of Americans and the poverty of the public sector as revealed in the shortage of schools, hospitals, medical schools, teachers, doctors and nurses, and the urgently pressing needs of rapidly growing urban communities.

Unless the country achieves reasonably well the first two goals it will fail in the last two, but these two require positive programs of their own.

The policy instruments for the attainment of these goals are varied, but I shall mention in this brief note only fiscal policy – in particular, public expenditure and tax cuts. To these might well be added tax reform, but I hesitate to do so for I am fearful that tax reform, so-called, will turn out to be a veritable Pandora's box. Once the lid is off, special interests are very likely to seize control and raise so much dust that the tax reformers won't known which way the wind is blowing. I agree that tax reform is urgently needed, and I sincerely hope events will prove my pessimism to be not wholly justified.

Were it not for the difficulties imposed by practical political considerations, I should plump squarely for increased public outlays as the *primary* policy instrument. I say this because I believe that the marginal utility of effort to meet the needs of the public sector outweighs by far the marginal utility of the nation's relatively satiated private wants. Public outlays for the public sector will indeed grow over time under the pressure of the imperious needs of expanding urban communities and the social welfare requirements emerging from automation and a rapidly changing technology. But for the years immediately ahead, such increases in public expenditures as the currently prevailing political climate will permit may prove to be quite inadequate. The public (and the Congress) is currently more interested in tax cuts than in meeting urgent public needs. Moreover, it is becoming increasingly clear that the tax structure as now constituted tightens the noose that controls the aggregate flow of private spending one notch earlier in each successive business recovery. Thus the economy is strangled long before full employment is reached. A general tax cut is long over-due.

During the last five years the country has been running on the average about $40 billion below its full employment potential. Gross private investment has average around $70 billion per year – far below the amount that would be needed to absorb the flow of private and public saving which a full employment economy would generate.

This poor investment performance was, I think, in large part due to the fact that the United States, unlike Western Europe, had pretty well exhausted its postwar shortages by 1957. (See articles by Dale, Solow, and Gainsbrugh.) During the last five years saving and investment have reached equilibrium at a level of income far below full employment.

Business investment can be stimulated by the recently approved investment tax credit and by the more generous treatment of depreciation allowances recently instituted by the Treasury Department. These measures will promote at one and the same time a full-employment equilibrium of saving and investment, first by raising the level of investment, and second by increasing the federal deficit. Moreover, a cut in the first bracket income tax rate, by augmenting consumer demand, would, I believe, stimulate investment and contribute to a full employment equilibrium.

But things could change.

It is conceivable that a technological revolution could rapidly raise the volume of private investment outlays to a new high plateau. The expansion of world trade, the worldwide population explosion, the impending revolutionary rebuilding of urban centers – all these things and more could raise the volume of investment so high that a federal surplus would be required to help finance (via debt retirement) the excess of private investment over private saving and thereby contain inflationary pressures.

No one is wise enough to forecast what changes are in store. And it is for this very reason that the country urgently needs a *managed* fiscal system analogous to its managed monetary system. The Federal Reserve Board can at will alter the money supply and thereby influence the availability of credit and the terms of lending. These are enormous powers to delegate to mere humans, and not many years ago such a grant of power was regarded as highly dangerous. But now-a-days all the free world is committed to managed currencies. Yet the job is not complete. Equally needed is fiscal management. The President, or possibly some otherwise constituted authority similar to the Federal Reserve Board, should be empowered, within limits set by the Congress, to alter tax rates so as to promote a balance between aggregate demand and aggregate supply – in short, full employment without inflation. I do not need to add that implicit in any well-balanced economy is the condition of responsible collective bargaining.

In the immediate years ahead, there

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is reason to believe that a federal deficit of considerable magnitude is in order. I believe it is doing a disservice to assure the public, as some liberals are trying to do, that a tax cut will only be temporary; that the boost which the economy will get from this "shot in the arm" can be so great that tax revenues will quickly balance the budget. Unforeseen developments, as just noted, could indeed produce this result. But we have no right to assume that they will take place. On balance, what is known about the multiplier and acceleration-effect of a tax cut, together with the probable marginal tax take of any incremental addition to the GNP, suggests a possibility of recovering in tax revenues around one-half to two-thirds of the initial loss incident to the tax cut. Thus a $10 billion tax cut might well add on balance (once the very short-run effects have run their course) only $3 to $5 billion or so to the deficit levels of recent years.

Americans are quite prepared to use credit to finance long-term family expenditures. Bond issues are taken for granted to finance state and local capital outlays. Private business would never think of charging investment outlays to current account. Only in the case of the federal government is the use of credit taboo.

How does one explain this irrational behavior? The answer is that those who oppose any expansion in the role of government have found the balanced budget dogma to be a powerful propaganda device. We hear much about "fiscal irresponsibility." In fact, it is the budget balancers that are fiscally irresponsible: an annually balanced budget would enormously accentuate the fluctuations of the business cycle. A compensatory fiscal program which balanced the budget over the cycle would indeed help to iron out fluctuations, but the economy might nevertheless drift farther and farther below the potential growth curve. Had the budget been balanced over the last five years, the country would very probably have suffered a considerably wider departure from full employment. Fortunately, in fiscal policy matters we act a bit more sensibly than we talk.

Alvin H. Hansen

How To Judge Quality

As a general formula, the desirability of as high and sustained a growth rate as is compatible with the costs that society is willing to bear is valid; but in using it to judge economic problems and policies, distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and the long run.

The distinction between quantity and quality can be illustrated by the components of the Gross National Product, an estimate widely used to gauge the total performance of the economy.

According to the July, 1962, issue of the *Survey of Current Business*, the GNP was $519 billion in 1961. Of this amount national defense accounted for $49 billion, or over 9 percent. In other words, about that much was *produced* for national defense purposes. Now assume that over the next seven years total product increases at the rate of 4 percent per year – a much higher rate than the 3 percent attained over the last seven years – and production of national defense goods triples. By 1968 Gross National Product will be $683 billion (in 1961 prices), defense outlay on goods will be $147 billion, and the remainder, $536 billion, will be about 14 percent over the 1961 level. This would mean only a slight rise in per capita consumption and capital accumulation.

The higher rate of growth indicated by this example would, in a sense, be genuine, since the economy would have managed to turn out that much more for national defense without reducing per capita consumption and capital formation. But it would hardly be a desirable type of growth, and presumably should be avoided if possible. No one would welcome an acceleration of the over-all rate of economic growth that was associated primarily with a marked increase in defense expenditures – at best a necessary evil, but still an evil.

The desirable qualities of economic growth are not as easily established as this simple illustration suggests. Every American, after some reflection, could produce a list of desirable contents of economic growth, omitting the vulgar, the frivolous and the dangerous. But individual judgments differ and a social consensus must be sought on what is needed and desirable. How such a consensus is to be attained, and particularly how it is to be made more intelligently responsive to rapidly changing conditions, is a problem that should be of continuous concern in a democracy. Only two comments can be made here.

First, in its evolution, economic analysis has departed more and more from the rigid conceptions of economic laws of the private market economy that characterized it in earlier and more "classical" days, and has moved toward more flexible adjustment of economic mechanisms to changing needs and priorities, with increasing room for participation by the state and public institutions.

Second, given the variety of qualitative content in the over-all quantitative rate of economic growth, objectives should be explicit: goals for "more" growth should specify more growth of what and for what. It is scarcely helpful to urge that the over-all growth rate be raised to x percent a year, without specifying the components of the product that should grow at increased rates to yield this acceleration, the needs and priorities that are thus to be satisfied, and the costs that may have to be incurred to assure such returns. If economic growth is to be more deliberately geared to what is wanted, effort must be exerted to formulate a consensus; or, still better, continuously to formulate and reformulate it in response to changing conditions, and with sufficient flexibility to allow for deviant innovators.

Economic growth involves a variety of costs that must be recognized.

Some are direct, such as additional input in capital investment and human training. While returns are often estimated net of current input of at least material capital, such input must be made; when made it is thereby unavailable for other desirable uses. Another more subtle direct cost is the adjustment of social institutions, of patterns of human life and work, that is necessary if the economic growth po-

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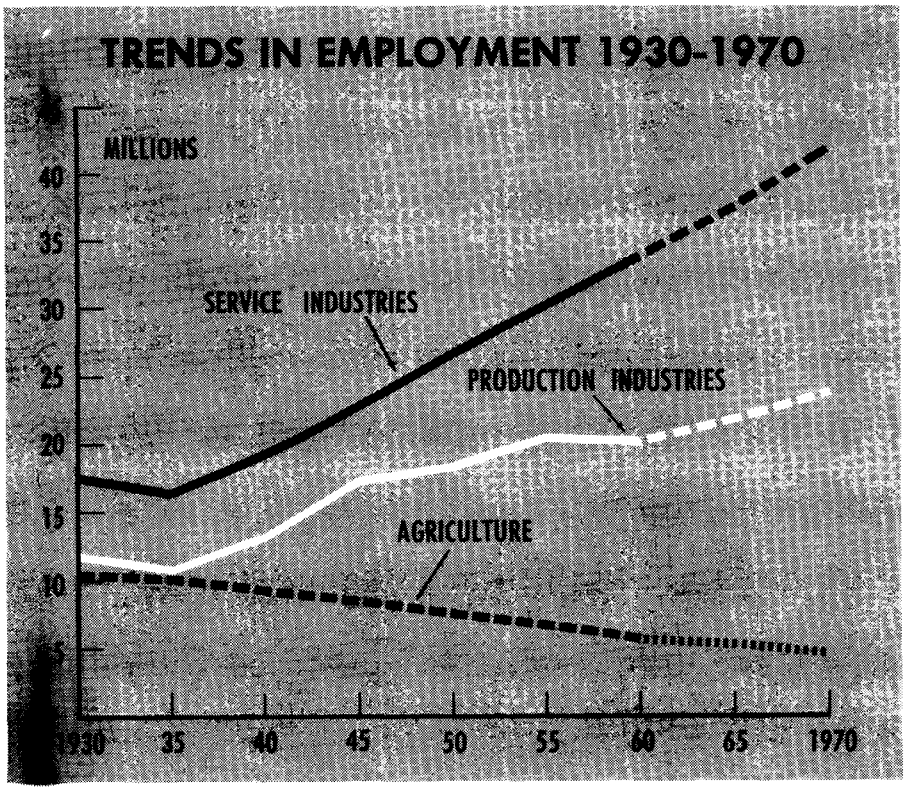
tential is to be realized. If urbanization, the formation of large and impersonal corporations, and the shift of the labor force to employee status are indispensable adaptations imposed by modern industrialization, the costs are borne by those groups in the population who have to adopt these new patterns of life – and this is true of a host of lesser adjustments with which the government is particularly concerned in regulating the economic behavior of divers groups.

Some of these costs may be too high: such would be achievement of economic growth by curbing the freedom and consumption of members of the society as is done by authoritarian governments that instill fear and hatred of some presumably powerful foreign enemy to goad their people to more work and to acceptance of reduced current consumption and freedom. But far less drastic modifications of cherished social practices which might contribute to greater growth may be delayed indefinitely because the change and the cost are not acceptable to those with the power to make them.

A second type of cost of growth is the loss in relative, and sometimes absolute, position of industries, occupations, regions, that are either adversely affected by the competition of more rapidly growing industries, occupations, regions, or are slow in responding to the effects of cost-cutting and employment-reducing innovations under conditions of small potential growth in demand. The effect on the coal industry of rapid growth in oil and other fuels is an example of the first type of impact; overproduction and its incident problems in agriculture are an example of the second type. In both cases costs reflect the difficulty of rapid adjustment to changes in market conditions that are a result of economic growth elsewhere or of growth in productivity within the sector itself. In either case failure to adjust means continued employment of resources below their potential; even, in extreme instances, to the point of total unemployment. These are costs not only to the groups affected but also to society.

If the resistance of these groups, which takes various forms, but often makes use of political power, is successful; or if considerations of economic equity justify assistance or protection (subsidies, tariffs, price maintenance), the costs to the particular groups may be reduced, but those to society are increased. Subsidies do not, in and of themselves, raise the productive performance of the recipients: the loss, compared with a more optimal use of the resources involved, still exists, and the inescapable shift is only postponed unless the subsidy is tied in with other policies encouraging mobility. Moreover, subsidies and tariffs mean resources withheld from other, possibly growth-inducing uses, and tariffs add to the problems of international relations. It cannot be denied that under some conditions the support of the purchasing power of groups adversely affected by economic growth may contribute, in the short run, to greater demand and thus to greater utilization of capacity and over-all growth. Nor should groups adversely affected by the differential impact of economic growth be left to suffer and not be helped to adjust to conditions that are not of their making. But costs are involved; the help is, in a sense, a cost of economic growth which, given in some forms, may only impede economic growth; and the incurrence and form of these costs must be carefully weighed during consideration of alternative policy decisions.



These rather obvious comments are relevant if only because of two trends in recent economic writings. One conceives modern economic growth as an automatic, self-sustaining process, once the "take-off" has been achieved; and tends to overlook the argument that if growth is to be continuous rather than self-retarding, the resistance offered successively by earlier growth industries that are becoming relatively obsolete and are affected adversely by growth elsewhere has to be continuously overcome – and not at forbidding cost. The other emphasizes the deficiency of over-all demand as a basic cause of idle resources and failure to attain desirable growth rates. Yet if deficiency of demand is an effect, not of temporary maladjustments in the productive and distributive mechanisms, but of the constant pressure of increasing productivity on the secular levels of final demand, sustained economic growth requires a stream either of technological innovations that would keep up consumer demand or of social innovations that would permit the satisfaction of

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needs by public agency action, thereby increasing production.

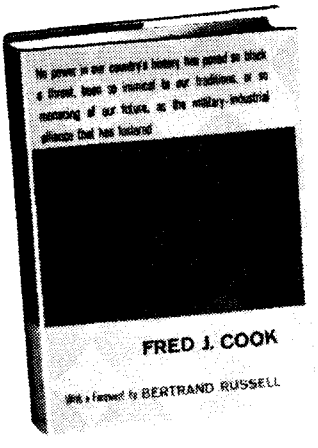
The emphasis above on what might be called the displacement or obsolescence costs of economic growth is relevant, because the way such costs are met affects the rate and steadiness of the growth process; and the experience of the older industries, regions, occupations is a clear indication that a stream of innovations, shifting from one sector to another, must continue if obsolescence is not eventually to overtake the entire economy.

In all these considerations the time element must be kept in perspective, with distinction made between the short term and the long run. The short term may be defined as the current year or two. The duration of the long run, whether the next decade or two or three, depends partly upon knowledge of the long swings, about 20 years in duration, that have affected the rate of growth of the American economy since the early 19th Century; partly upon readiness to revise thinking with the passage of time; partly upon technical constraints in the implementation of analysis of the long run, which sets limits to the time span of the nation's commitment. Whatever the precise definition of the long run, the behavior of the economy and the problems it engenders will be different for the short and for the long run. In the short run, a chief concern may be with underutilization of resources, either labor or capital; in the long run more concern may be felt with pressures upon the supply of capital funds and increasingly highly skilled labor. In the short run, the problem may be inadequacy of total demand; in the long run, shortage of growth-inducing innovations and resistance to their adoption and spread.

The short run problems always loom large. If there are unused resources and groups in distress, the problem is immediate – and doing nothing about it is also a kind of policy, not necessarily the wisest. On the other hand, the long run for the future is always uncertain. It would have been a wise prophet indeed who, 25 years ago, had foreseen the major changes in the country's conditions that have occurred and the economic problems for whose solution some preparation should have been made. And yet households, business firms and especially public agencies are continuously making decisions that involve commitments for decades; and the policies directed at current problems all have long-term consequences. Even if these are susceptible of counteraction when their cumulative impact becomes undesirable, the cost of the extra effort that must then be made may not be negligible.

Two obvious conclusions follow. First, in the consideration of alternative policies (including inaction) in response to current problems, the long-term impact must be weighed alongside the short-term effects for which the policies are primarily designed. In this light, the conservative response to current problems in a country like the United States, which has enjoyed satisfactory growth, may at first seem justified – for it may reflect a reluctance to tamper with institutions and arrangements that have contributed to desirable long-term performance. But it should not be assumed that past growth did not necessitate a series of policies which, while triggered by current problems, effected changes that permitted the kind of growth that did occur. Study of the country's economic history reveals ever-present concern – by the private sector and by the various levels of government – with the adaptation of economic institutions and practices to changing conditions and potentials of economic growth, and to changing notions of equity; and likewise the unpleasant aftermaths of periods of relative policy inaction like that of the 1920's. The long-term impacts of responses to short-term problems should be examined, but inaction would be justified only if the long-term consequences of the alternative policies are judged to be detrimental to such a degree that they outweigh the short-term benefits – an unlikely contingency, however valid it may be for one or another specific policy.

Second, implicit in the first conclusion is the growing need to allocate some attention and resources to the probable and feasible long-term course of the economy. Preoccupation with current problems and pressure to resolve conflicting notions as to best policies may cause far too few resources to be used for capital investment in learning about



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and acting on the long-term future. Neither the private sector, nor the government, nor the universities provide adequate institutional arrangements designed specifically for a broad continuous examination of the long-term future and timely consideration of problems that may loom ahead. With the exception of such specifics as projections of population, or of the market for some products, or of some government budgets, they do not even provide for the extrapolation forward of existing forces that may largely determine the long run.

Several problems that may loom large in consideration of the long-run implications of existing factors have been noted or implied in the discussion by other authors in this issue. Mr. Boulding's comment on misallocation of research resources between the natural and the social science fields leads me to ask whether even in research and development dealing with problems of material production, the present allocation, with its heavy concentration on defense-oriented tasks and the small share devoted to purely civilian production problems, is optimal from the standpoint of future growth. Allocation of so little of scarce creative and skilled research talent to the vast range of civilian production problems may bode ill for the future if it means an insufficient flow of innovations to assure a satisfactory rate of growth of civilian output and productivity. The comments by Messrs. Bullock and Singleton on the differences in demand for workers of high and low skills raise a major problem if the course of technological change means that the rapidly growing industries will demand only highly skilled labor, with ability and attainment far above average. The possibility calls for a thorough examination of the implication that formation of a kind of IQ aristocracy would have for wide participation of the population in productive economic activity, and suggests that effort be directed at a reorganization of the educational system and development of a satisfactory job structure for the future productive system. And the comments by Mr. Kassalow on the reasons for organized labor's concentration on the demand for shorter hours suggest a question not unrelated to that just noted – whether a longer period of training and the raising of the age of entry into the labor force, with whatever policies are needed to encourage such shifts in the face of their excessive private cost at least to the lower income groups, should not be carefully explored as a partial alternative to an over-all reduction in hours.

The number of such long-range problems could easily be multiplied. The rapid rate of modern economic growth requires rapid increases in the supply of specific resources, and policies must be aimed at accelerating such flows. And in addition there is the variety of adjustment problems caused by the displacement and obsolescence impacts that have already been noted as costs. But there is little point to extending the list. The aim of these notes is not to provide answers to a comprehensive list of properly selected and weighed problems; it is merely to stress a few broad considerations that seem useful in thinking about the growth of the economy in the past and in looking forward to the changing conditions ahead.

SIMON S. KUZNETS

Guiding Guided Capitalism

The supreme challenge to this country's economic system in the years ahead is to complete the evolution of "guided capitalism" in order to provide more successfully for generally full employment of resources and vigorous and sustained economic growth. For efficient evolution of the US economy, both broad popular understanding and intensive specialist grasp of its principles are requisite, making possible progressive adaptation of institutions and policies. Such adaptation requires review of the growing points in contemporary economic comprehension, both those that concern action programs and those that concern the theory underlying them.

Thirty years ago, government intervention in the economic process, except for policing the market through such measures as the antitrust laws, was a minor element. Today, it is taken for granted. But in the course of intervening, various types of government activity were instituted. In the perspective of history, judgments of their relative desirability can be made and serve as guides to the future. For instance: Statutory regulation of working conditions, workmen's compensation laws, social insurance and redistributive taxation and transfer payments have caused some observers to speak of "welfare capitalism"; but government action to provide minimum welfare "floors" has been largely accepted even in conservative circles. Beyond these basic minima, however, there is resistance to divorcing benefits from productive contributions, and this resistance is healthy.

Over the last 35 years, the dynamic forces of the market have produced a significant redistribution of income. In these new circumstances it seems likely that governmental tax measures should now be modified in favor of providing greater incentives for saving and investment on the part of the higher income groups. At the same time, appropriate policies to stimulate private investment should be paralleled by direct public investments in strategic areas.

The assumption by the federal government in 1946 of responsibility for generally high employment was essential for effective functioning of a predominantly free-enterprise economy. The chief further requirement is the formulation and execution of more effective policy toward this goal, coupled with and reinforced by policies designed to promote vigorous growth. Without a positive growth policy, the US type of economy tends periodically to slow down, and this "long wave" reduces the long-term growth rate – thus dampening progress toward both domestic and foreign-policy objectives.

During the depression, assumption by the government of increased responsibility for high-level demand and employment was paralleled by government intervention in market processes themselves. Direct efforts to aid farmers, mining interests, etc., through influencing prices of commodities, and homebuilders and veterans through lowering interest rates have proved themselves far less successful than general coun-

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ter-cyclical measures; under conditions of relatively full employment, these actions should be gradually liquidated. The Committee for Economic Development's recently proposed program for a return to free markets in agriculture has provoked constructive discussion of one such possibility.

A sensitive, market-directed, profit-motivated economy has in general proved an effective allocator of resources and coordinator of production – recent increase in the use of market pricing for the allocation of both labor and goods in the Communist countries has caused Robert Heilbroner to speak of the "convergence" of socialist and free economies. Where market forces result in decline of particular industries or areas, government action to provide retraining, further education, and if necessary relocation of the affected workers is far more conducive to economic effectiveness than efforts to sustain unwanted production.

One of the areas in which economic research is currently being most promisingly concentrated is creating greater understanding of the long swing in economic activity as contrasted with the short business cycle, with interesting policy implications. Recessions since World War II have been held to very modest proportions. From peak to trough, real national product has fallen at most a couple of percent. What is disturbing, however, is that since 1953 recovery peaks have topped off progressively further below capacity, with an upward creep of unemployment as documented elsewhere in this issue.

Now, the basic research of Kuznets, Abramovitz and a few others has begun to increase understanding of longer swings in economic activity. The short business cycles have averaged about four years in length during the past century, but there have been alternating periods of faster and slower rates of growth of output averaging about 20 years, and these have been particularly associated with demographic variables.

Recognition of these long swings suggests a need for major modifications in the concept of proper fiscal policy. Instead of running deficits during recessions and surpluses during booms, with an approximate balance over the short cycle, what may be required is to run surpluses on balance over the several short cycles that occur during the buoyant, up-phase of the long swing, and deficits on balance over the cycles that comprise the down phase. To state this proposition in specific terms of postwar experience: larger surpluses during the first, buoyant decade would have faciliated growth with less inflationary pull from the demand side; and since 1955 or so, a tax system geared to result in a smaller surplus in boom years and thus a larger net deficit over the several short cycles the country has experienced recently would have augmented weakened forces of investment and total demand.

Conservative elements, economic and political, would doubtless object to mounting government debt during the stagnant or less-buoyant phase of the long swing. But counter-cyclical efforts by government to mitigate the short cycle, similarly resisted a generation ago, are now taken for granted.

Another promising and related area of specialist thought concerns review and public clarification of the budget-making practices of the federal government. Mr. Dale's article refers to the varieties of public accounting used by the industrialized countries in the European Economic Community; greater distinction in the public mind here between expenditures for capital outlay and for current account would enable the average citizen to distinguish the government's annual running expenses from its long-term outlays whose investment results in the creation of durable real assets. Popular grasp of the difference between these two kinds of expenditure might make a significant change in public reaction to increases in those segments of the government debt matched by productivity-raising investments.

The bringing up of growth rates during the down phase of the long swing would raise investment and increase economic capacity faster than would otherwise be the case. Intensive specialist attention to incentives for in-

Capital Outlays in the Federal Budget

This year's Presidential message, transmitting to the Congress the 1963 budget of the United States, stressed:

"In contrast with the practice of many businesses, State and local governments, and foreign governments, the budget of the US Government lumps together expenditures for capital investment and for current operations. Nevertheless it is clearly of importance, in analyzing the significance of the Federal budget to the Nation, to recognize that the budget includes substantial expenditures for loans, public works, and other durable assets and capital items which will yield benefits in future years.

"Furthermore, increasing attention has been given in recent years to the significance of 'developmental' expenditures – outlays for education and training, and for research, which have the effect of adding to the Nation's level of knowledge and of skill, and thereby increase the capacity to produce a larger national output in future years."

Twelve percent of all civil outlays and 28 percent of all outlays for national defense – 40 percent of the total budget – either provides repayable loans or procures physical assets, research, or other developmental activities.

For civilian account

	In billions
Federal Public Works	$2.5
R&D, Education, Training, Health	$4.8
Loans	$2.0
Improvement of State, Local, and Private Physical Assets, and other	$1.5

For national defense account

Equipment	$15.4
R&D	$8.1
Federal Public Works	$1.4
Nuclear Materials, Stockpiling, and other	$1.5

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vestment is urgently needed: perhaps the chief advantage of socialist dictatorships is that they can direct a significantly larger proportion of national income into investment than is possible where investment has to be financed by voluntary saving. But voluntary saving and investment can be augmented in a democracy.

Two kinds of investment should be considered.

The first is investment in tangibles. Private tangible capital formation results in new construction, equipment, additions to inventories. It can be stimulated by appropriate monetary and tax policies. Increased government investment in capital goods – schools, roads, harbors, sanitation, natural resource developments, facilities for public administration – will generally induce a large volume of private investment related to it.

Then, in addition, investment by persons, business firms and government in intangibles such as the education and training of persons, and research and development, helps raise the productivity of tangible capital and thus stimulates capital formation. Private intangible investment can be encouraged by tax reforms.

Economists must learn more about relative rates of return on various types of investment, intangible as well as tangible, public as well as private, so that optimal combinations of investment can be made. Despite the apparent popular mandate for accelerated growth, it is not apparent how far the American people are willing to go in increased abstinence from consumption in order to buy greater investment. There are no costless ways to growth: Edward Denison has demonstrated in his study for the Committee for Economic Development that every tenth of a percentage point increase in the long-term growth rate comes at considerable cost. Activities that currently promise high returns include:

1. Concerted effort to increase productivity in governmental agencies – the installation by the Budget Bureau of productivity measurement systems in selected agencies is an example;

2. Since research and development in private non-commodity producing enterprises are minuscule in comparison with that in manufacturing, R & D in these areas, sponsored by trade associations or the government, should produce initial high returns;

3. Establishment in many industries of "productivity" centers" such as were set up in numerous countries after the war could increase speed of diffusion of new and advanced technology.

Americans should recognize that despite maximum voluntary efforts here, many less-developed countries are likely to attain higher growth rates than the United States in years to come. Though its absolute position will continue strong, the relative economic position of this country in the world will gradually decline. This convergence will in a sense be testimony to the success of the postwar foreign aid and investment programs instituted by the United States; the trend underscores the need to continue to work constructively with world organizations and to develop closer ties with democratically-inclined peoples.

JOHN W. KENDRICK

A National Economic Budget

It is one of the most significant developments of the last 50 years that economic events are no longer regarded as something that happen like an earthquake, against which man can take only protective and remedial actions. General concepts have been evolving about what the performance of the economy ought to be. Full employment, an adequate rate of growth, reasonable price stability are criteria of satisfactory economic performance now almost universally accepted. There is no unanimity about the exact magnitudes of tolerable unemployment, desirable rates of growth, or acceptable price changes, but discussion of these specifics indicates that the need for such criteria as guides for policy has been accepted in principle. This is in complete contrast with the previous philosophy of *laissez-faire* capitalism, and also with the Marxist interpretation of capitalism. The Employment Act of 1946 stamped legislative approval on this epochal change in national economic philosophy.

While some kind of broad consensus was evolving on these economic *performance goals* of full employment, desirable growth and reasonable price stability, a new emphasis arose on what may be called *achievement goals*. Every organized society aims to achieve certain objectives, such as strength in defense or social welfare measures. But it is significant that, in recent years, goals were proclaimed which were not limited in their coverage to traditional government functions but embraced private as well as public efforts, including improvement in education, advances in technology, urban redevelopment, increase in the standard of living. The relative importance of some of these achievement goals is highly controversial – witness the debate on the amount of money and effort that should be invested in space exploration. But the significant thing is that discussion got under way about what the nation should try to achieve within a specified period of time, and what are the highest priority uses to which the productive resources of the nation should be put.

There are people who look with some misgiving at an attempt to reach a consensus on national goals and their relative priorities. They believe that proclaiming and pursuing national goals is characteristic of a totalitarian, not a pluralistic, society. In order to counteract any possible confusion, it should be affirmed that debating national goals, and determining policies in the light of priorities among these goals, are fully compatible with the philosophy of a pluralistic society.

First, the goals on which a monolithic society seeks to enforce consensus are ultimate and over-riding goals, as incorporated in the racist philosophy of the Nazis or the materialistic philosophy of Communism. Proximate, partial goals like improved education and health, or a better standard of living, can be accepted by believers in very different creeds and philosophies. Increased foreign aid may appeal to some people on humanitarian grounds, to others on grounds of power politics.

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The achievement goals here discussed are not in the sphere of ultimate but of intermediate values. Debating these intermediate goals is not only compatible with a pluralistic society – without some coherence in the pursuit of such goals, a pluralistic society may be unable to function effectively.

Second, these goals are not to be pursued in the manner in which a law is proclaimed and enforced in an autocratic regime. They are meant to be debated in a democratic manner and to serve as guidance for public policy and as criteria for appraising the price and wage policies of business and labor. They can also serve to evaluate the demands of special interest groups.

Under the Keynesian approach policy was concerned simply with performance goals, such as economic stabilization or full employment; it dealt with such quantitative concepts as national income, Gross National Product, the "government contribution," and the "multiplier." But such policy took it for granted that at a high level of employment, resources would be allocated to highest priority uses. Keynesian fiscal policy was designed to promote a high level of aggregate economic activity; it was not particularly concerned with the *kinds* of goods and services that were to be produced.

In contrast to the Keynesian or, as it used to be called, the "new" economics, the "newer" economics is concerned both with over-all performance and with qualitative achievement. For its purposes, in policy guidance, finer tools are needed than the GNP and the other statistical aggregates.

The concept of the *national economic budget* has therefore been developed for evaluating achievement goals, in addition to performance goals. The national economic budget provides projections of government programs, as well as of private investment and consumption, over a future period. The projections add up to the Gross National Product and are not in conflict with, but incorporate, the earlier Keynesian concepts; but they go further.

The national economic budget is a tool of economic planning tailored for use in a mixed economy. By using alternative projections, the economic consequences of adopting alternative goals – like increased armament or disarmament –

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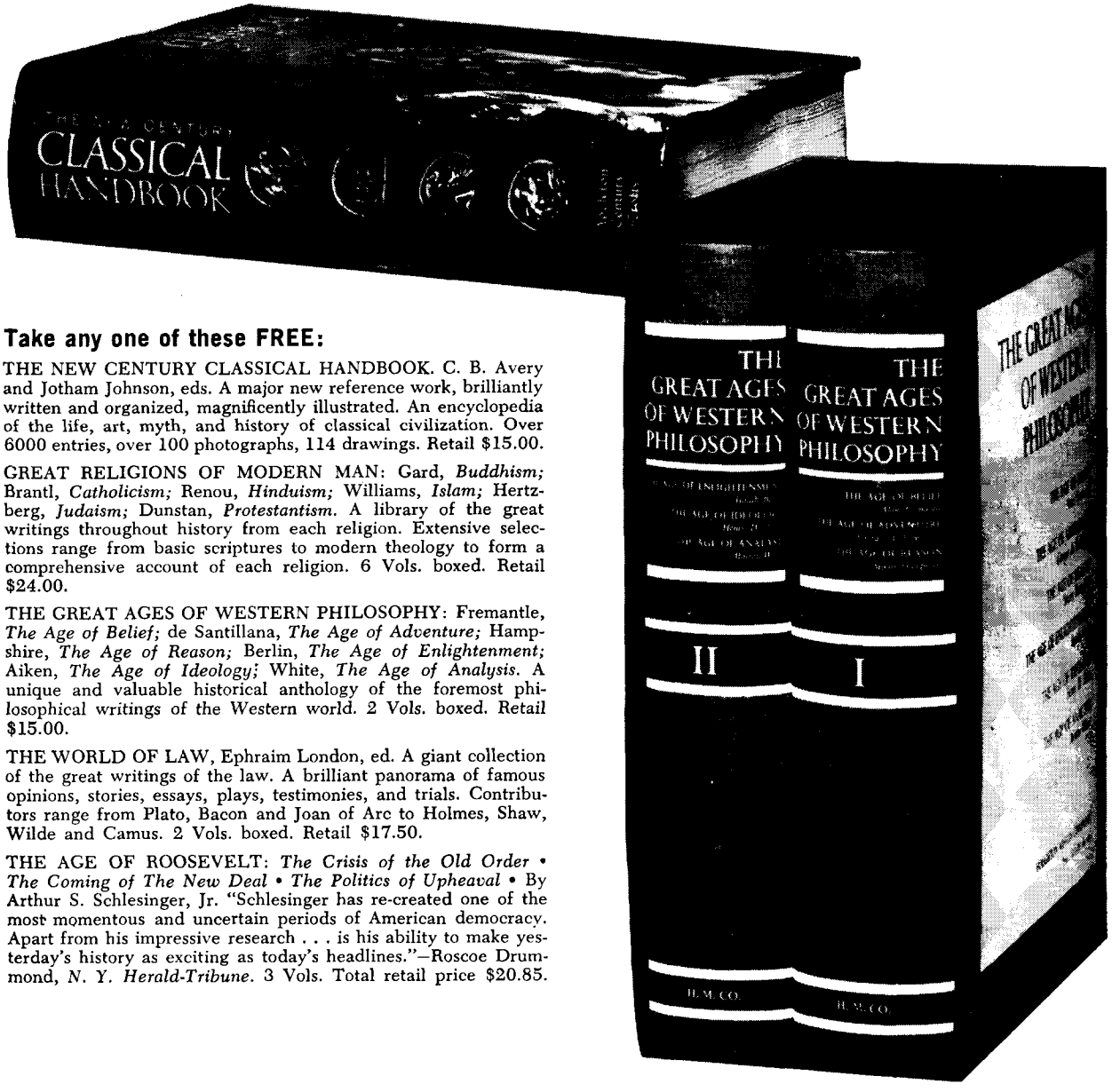

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can be evaluated. The national economic budget is computed both in dollar terms and in terms of employment.

The national economic budget is by its nature primarily a planning tool for the formulation of longer-run policies; it uses the perspective of the longer run to look at the immediate future.

In that respect, it contrasts with a business-cycle approach to economic problems. The business-cycle approach takes longer-run growth for granted, and is explicitly concerned with the fact that recessions periodically interrupt growth. Recessions, if permitted to continue unabated, may develop into depressions. Therefore, in this view, the major function of governments is to activate a timely anti-recession policy; with respect to growth, the government has only to provide necessary "infrastructure" and to remove obstacles which might block unimpeded economic development.

In contrast, the long-term approach emphasizes the need to promote economic growth constructively. If the basic factors of growth are weak, a small reduction, whether in inventory accumulation by business or in government expenditures, may easily turn growth into a recession. When the problem is looked at from this angle, the factors stimulating or impeding growth become of prime importance, and the frequency of recessions becomes a secondary, though certainly not unimportant, phenomenon.

The new accent on growth has been deprecated by calling it "growthmanship." This characterization is justified, indeed, if one thinks of growth promotion as participation in an international race for the highest statistical percentage. But actually, growth means technological advances without rising chronic unemployment; it means steady increases in wages and salaries without price rises. It makes a high-wage country more competitive in international markets. It provides rising government revenue without an increase in tax rates. It facilitates advances in the incomes of families at substandard levels of living without necessarily taking away from those in the middle and higher-income brackets. Growth permits a nation to undertake the things which need to be done at home and abroad without imposition of austerity. And, finally, balanced economic growth makes it easier to combat recessions when they occur.

In the depression of the Thirties there evolved two theories explaining the long-drawn out lack of growth. Both of these have an element of truth, but both are too dogmatic. One was that the government intermixed reform measures, which were interpreted as reflecting an anti-business attitude, with recovery policies, and thereby, it was believed, undermined business confidence and impaired the full effect of the recovery measures. The other philosophy – the so-called stagnation theory – maintained that private demand, or at least useful private demand, had approached a point of satiety and that future growth depended largely on expansion in the programs of the public sector.

In contrast with these views is a pragmatic approach which recognizes that in balanced economic growth both private enterprise and public undertakings have decisive, and often interrelated, dynamic roles. The belief advanced by many progressives in the inherent superiority of public over private enterprise has no more validity than the opposite doctrine that private enterprise is the only efficient and "sound" vehicle contributing to national growth. Emphasis on national goals puts public and private enterprises alike in their proper places. That is, they are considered as means which must prove their value by the efficiency and the specific contributions with which they further national and social ends. Both are institutions of social usefulness and they should be permitted to fulfill their functions without being jeopardized by mutual suspicion. Such recognition is probably the most important prerequisite for the functioning of a "mixed" economic system such as that of the United States today.

The worst obstacle to growth is probably the traditional attitude which assumes a conflict of interests between the public and the private sectors of the economy. There are areas of conflict in

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cases in which government responsibilities for the public interest clash with private interests of management or labor, but recognition of these areas should not lead to overlooking the much greater significance of the community of interests. In a slowly expanding or stagnant economy, one group in the population can gain only at the expense of another. In an economy of satisfactory growth, there should be a much broader basis of common interests. Balanced growth is the most effective antidote to a philosophy of class struggle.

It is characteristic of our age that the dynamics of the public and private sectors are often interrelated. For instance, a very large potential market for housing, standard appliances, and other consumer goods exists in the 20 percent of American families who are living at or near subsistence levels. Raising the productivity and incomes of their breadwinners is, in part, a task of government policies of education, retraining, health measures, and the creation of job opportunities in depressed urban and rural areas. As these government measures are successful, new markets for private enterprises will open up.

Another example is the case of urban development, renewal and mass transportation. Here, active government leadership is needed but, if it is successful, tremendous opportunities for private initiative will be created.

A third example is the interrelationship between public and private efforts in technological development. The very large government outlays for research and development, particularly in the fields of defense, atomic energy, and space exploration, are creating an enormous reservoir of knowledge and experience in virtually every branch of science and engineering. Private enterprise can tap these resources for the creation of new work materials, new methods of production and management, and new end products. Promotion of a more rapid "spillover" of technology from the public into the private sector is a challenge to both.

The national economic budget indicates the government programs, business investments and consumer purchases required for realization of the country's economic potential, and feasible if that potential is realized. Balanced growth would best be realized if government, business and consumers proceeded in confidence that the other sectors will play their roles too. Development is impeded if government units wait for increased revenue receipts before undertaking additional programs and if business waits for additional orders before engaging in new investments. If the government goes ahead with desirable additional programs (or with tax reduction) on the *assumption* that business investment and consumption will expand correspondingly, the chance of this actually happening is maximized. There will be strong opposition to such an approach as long as an increase in government programs or a reduction in tax rates *in anticipation* of rising tax yields is regarded as "unsound" or "irresponsible," yet, growth in a mixed economic system can be realized only if actions in the public and private sector are taken in anticipation of growth.

In a nutshell, such are the dynamics of a mixed economic system. They have important consequences for business investment policy, government programming and methods of government budget formulation. There is a possibility that over-optimistic anticipation by government, business, and consumers may result in inflationary pressure; fiscal, credit, and monetary controls should guard against the possibility of excessive expansion of demand. However, at the present time there is a greater threat of inadequate anticipation than of inadequate expansion of demand.

GERHARD COLM

COMMENT OF A POLICYMAKER

In many discussions of the long-term growth of the economy, full employment is assumed. This helps focus on the main components of the growth process itself – on the amount and direction of capital investment, on the size and quality of the labor force, on the state of technology and technique – or to put it differently, on the respective contributions to economic growth of physical capital formation, education and training, and research, development and organization.

For purposes of analysis, this separation of issues is very useful – as the articles in this section clearly demonstrate. But in economic policy-making, it is seldom possible to draw a clear distinction between the problems of full employment in the short run and of growth in the longer run. Economic analysts cannot *assume* full employment; even while focusing on the future growth of productive power, they must simultaneously consider measures to *assure* full employment – both of today's productive capacity and of the larger potential wealth available tomorrow. This recalls Kuznets' observations on the necessity of pursuing policies for short-term aims which are consistent with long-term objectives.

Even in putting unused resources back to work, there are a variety of choices about how it should be done. While "make-work" projects such as leaf-raking which generate employment may be less wasteful than leaving labor completely idle, it is far more productive to put workers back on the job on construction sites, in factories, and behind the counter – and, in some cases, to send them back to school. Some of these methods of making full use of current resources largely increase current consumption, while others, at least in part, increase ability to produce a larger output tomorrow. The product of leaf-raking is more beautiful parks. The product of new jobs in the consumer goods industry is more consumer goods. But the product of new factories and machines or more roads or a better educated population is a greater ability to produce in the future.

Even when the direct impact of full employment policies is on consumption, they can still contribute to growth in several ways. The reactivation of idle men and machinery itself will result in a substantial rise in output. At present, 5.8 percent of the labor force in the US is unemployed, and industrial operating rates are well below capacity. This is a loss which even the "afluent"

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United States cannot afford; nor does this loss fully record the loss in output the country is currently foregoing. As the recent report of the President's Committee to Appraise Employment and Unemployment Statistics points out, "... under conditions of expanding production and employment persons will be drawn into the labor force as job opportunities increase, wages rise, and hiring practices become less rigid." If sufficient consumer and investment demand were generated to reduce unemployment to 4 percent, the Gross National Product would be an estimated $30 billion higher annually than it is today. This amount exceeds the nation's expenditure on education, or on medical care, or on manufacturers' investment in equipment, and it would defray three-fifths of the enormous national defense bill.

Simply *using* presently unemployed resources would provide a substantial growth in output. But it is necessary to do better than that: these resources must be used *efficiently*. Even in a highly progressive economy there are ample opportunities to increase efficiency and mobility. Each presents a challenge to do better. And every time the country meets the challenge it will be rewarded by an increase in output – and a one-shot boost to the growth rate. Enough unseized opportunities are present to fire a full volley of these booster shots.

One telling example is found in existing discriminatory practices in employment and education. In a recent study on the "Economic Costs of Racial Discrimination in Employment," prepared by the Council of Economic Advisers for the Joint Economic Committee of Congress, we estimated that eliminating discrimination in employment alone would achieve an increase of some $13 billion in today's GNP. We also estimated that if, in addition, discrimination in education against non-whites had not existed in the past, the total increase in today's GNP would be over 3 percent, or some $17 billion.

Ready availability of jobs would lead to more efficient use of the labor force. Underpaid farm laborers have little opportunity to move into industry when unemployed industrial workers, already trained, are waiting impatiently for jobs to open up. Employers may be loath to risk social friction by hiring members of minority groups when less conspicuous, if sometimes less able, people are available to fill any vacant positions. Resistance to labor-displacing technological advance is diminished by a plentiful supply of new jobs. The tangible and intangible costs of growth emphasized by Kuznets, which may indeed be high in an economic climate of slack and uncertainty, are substantially reduced – and the process of economic growth and change is facilitated – in an environment of full employment and vigorous economic activity.

But this is not all. High levels of demand and the confident expectation of continued prosperity are a necessary background for generating the risk-taking, the profits, the investment, that help to generate rapid economic growth. The sources of growth are to

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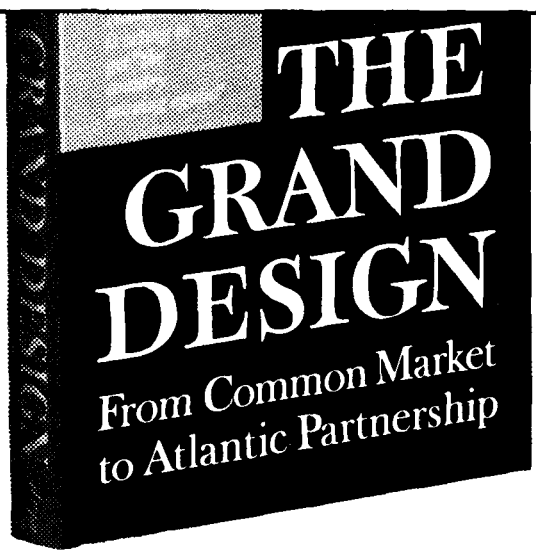

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be found in investment broadly conceived: in technological progress, in the capital formation that gives life to new products and new processes, in the improvement of the quality and mobility of human resources. By raising the sights and broadening the vision of producers, a high-demand economy, in addition to putting the country back on the full employment track, will increase the speed at which we can move along this track. But if full use is not made of present economic potential, growth of potential itself slows down.

Of course, as recent British experience demonstrates, full employment does not automatically generate the growth rate desired. The price of growth comes a good bit higher than this. It involves conscious decision and consequent action to assure that a larger share of full employment output and effort is devoted to growth-producing investment: plant and machinery, education and training, research and development. It requires economic and intellectual flexibility. It requires willingness to accept more rapid obsolescence of equipment and plant as well as modification of long-held convictions, perhaps even prejudices, concerning economic policy. Witness the acceptance of – indeed, the emphasis on – investment incentives on the part of the British Labour Party, not to mention examples closer to home.

One mistake that must not be made, however, is to associate "investment" entirely with "sacrifice" or "abstinence" from consumption. Investment for growth must be viewed broadly. Indeed, recent research reveals that the steady improvement in education over the last century has contributed as much to economic growth as physical investment in plant and equipment. Yet, while laying the groundwork for future increases in output, education liberates and elevates the human spirit. In short, investment in human beings – one form of the intangible investment which Kendrick rightly emphasizes – is cheaper than it looks.

Colm has set forth the benefits of growth – improved competitiveness in world markets, more public services without fewer private ones, advances in living standards of low-income groups without reductions in those of high-income families – in short,

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"growth permits a nation to undertake the things which need to be done at home and abroad without imposition of austerity."

More rapid economic growth will bring higher levels of consumption. Though some may wonder whether further increases in consumption – in a country which already enjoys the highest living standards in the world – contribute very much to human welfare, this concern reflects a mistaken notion of how well off the American people really are. It is well to remember that in 1961 nearly a third of American spending units had incomes of less than $4,000, over a half had incomes of less than $8,000 a year. And, though Americans may be – on the average – the best housed people in the world, housing standards have hardly reached the point where further improvement is simply a move toward Oriental splendor. According to Census categories, almost one-fifth of US housing units are substandard – either "dilapidated" or lacking in basic plumbing facilities. Even in the United States in the 1960's, affluence lies in the eye of the beholder.

Further, those who decry the benefits of increased consumption seem to have a strangely limited conception of what "consumption" includes. They tend to identify consumption chiefly with the acquisition of consumer durable goods: automobiles, television sets, freezers and the like. But these automobiles, television sets, freezers, and the like are only about 15 percent of total consumption, which also embraces medical and dental services, a wide range of cultural activities, travel, sport, recreation, and even – at least for most statistical purposes – private education. Consumption, in truth, is a great deal more than the acquisition of gadgets. Indeed, those aspects of American life which critics of US culture find either most blameworthy or most praiseworthy tend to have one thing in common – most of them are classified coldly by statisticians as consumption.

Surely, the county needs to gain a better understanding of the policies which will generate more rapid growth – and of their costs. But existing knowledge on such questions is probably greater than is generally realized. Perhaps the most pressing need is for broader public understanding of the fruits of full employment in the short run and of more rapid growth in the years ahead. A growing social consensus in this area is not only desirable but essential if the US is to make its full contribution to achieving the goal set in common with the 19 fellow members of the OECD, namely, to raise the combined output of the Atlantic Community by 50 percent between 1960 and 1970. As the President said in his Economic Report to the Congress last January: "We can do our share. In the mid-1960's, the children born in 1943 and after will be arriving at working age. The resulting rapid growth in our labor force offers us an opportunity, not a burden – provided that we deliver not only the jobs but also the research, the training, and the capital investment to endow our new workers with high and rising productivity as they enter economic life." WALTER W. HELLER

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So What?

If it is Time for a Keynes, it is also time to ask what would happen to one if he appeared. Over lunch in the White House Mess or the cafeteria of the New Senate Office Building, in executive suites or faculty clubs, he might find genial agreement that a sophisticated view of economic growth places as much emphasis on its quality as its quantity. Especially in the clubs, heads would nod as he suggested that in determining priorities for national budgets of economic advance, immaterial components such as education and basic research should receive major emphasis. Sociologists would approve because they foresee a period when the uneducated will become unemployed more rapidly than ever, with a growing spread between the rich and the poor. Business economists would agree because they foresee American corporations moving into a period of sharpened world competition where advantage lies in high technology.

With mutual pleasure in each other's subtlety, the economic literates would review programs for alleviating economic distress in obsolescent sectors with a view to minimizing the burden on the whole economy of sustaining such lags. The *tour d'horizon* would sweep across the farm problem, the depressed areas, the inefficient industries; it could end with a discussion of fiscal policy. But as Alvin Hansen queries, what chance is there for current application even of some of the wisdom already commonplace among the knowing? The groups whose desires are most influential in the shaping of American public policy – the business, farm, labor, professional organizations, the technicians, the Congress, the White House staff – are comfortable enough. Or at least we may say they are not impatiently determined to initiate changes on the scale required, and to accumulate the necessary public consent.

During the Great Depression and World War II, massive and urgent incentives propelled the new Keynesian proposals into practice. Is catastrophe the only catalyst that works?

HELEN HILL MILLER

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"The Passionate Heart-break"

by Katherine Garrison Chapin

A comprehensive study of the work of Conrad Aiken has been long overdue. His eminence as a man of letters – poet, novelist, critic, writer of short stories – and his unmatched range of notable writing over the last fifty years is only now beginning to receive the sustained attention it has lacked. This neglect speaks of the uninformed outlook of contemporary criticism. Aiken's verse

Conrad Aiken: A Life of His Art
by Jay Martin
(Princeton; $5)

and prose has never fitted neatly into any of the fashionable categories. He has followed his own unique and often lonely way from the beginning. He has received many honors – the Pulitzer Prize, the National Book Award, the Bollingen Award, the Chair of Poetry at the Library of Congress, the Gold-Medal for Poetry of the National Institute of Arts and Letters – but has not been recognized by his contemporaries as he deserves to be.

Of course many of them have praised Aiken – Marianne Moore, Malcolm Cowley, Delmore Schwartz – but they have usually dealt with a single poem or volume. In the citation of Aiken for the Gold Medal in Poetry, Allen Tate speaks of his "formidable body of work with which we have not yet come to terms." Mr. Jay Martin has undertaken this task in his study.

Aiken has been ahead of his time, not in any iconoclastic or revolutionary form of writing, nothing to startle or shock the reader into a comprehension of "newness," or to present him with obscurities to be fathomed in footnotes. Yet Hayden Carruth, reviewing the *Selected Poems*, believes that Aiken has surpassed Pound, Eliot and Stevens in determining "almost while no one was aware of it, the look and sound of the poetry written in our age."

Aiken's originality was never on the surface. His genius lies in his philosophical breadth, his subtlety, his presentation of life with its beauty and its tragedy as being one whole and indivisible experience. The succession in poetry of changes and styles, fads and discoveries, births and still-births passed without altering his direction. At the beginning of the renascence in 1912 he held out against looseness of form in free verse, was later critical of imagism (1916-20) as circumscribing by its emphasis on the "image" the flow of a poem and its meaning; and in the Thirties and Forties when poets were over-concerned with realism – sociological and political – deplored the "tired elegiac note," dreading that poetry would become "a juiceless and joyless and loveless thing." Although new forms in writing always attracted his critical interest and commentary, and sharpened his style, he never belonged to any school or coterie, and nothing influenced him to change the current of his poetic impulse.

Aiken belongs to the mainstream of great English poetry; Coleridge, Wordsworth, Keats, Matthew Arnold and Browning, the teller of stories. One can find them in many lyric lines:

> It is evening, Senlin says, and in the evening,
> By a silent shore, by a far distant sea,
> White unicorns come gravely down to the water . . .

In the meditations of "Preludes for Memnon," the philosophical cadence of "Time in the Rock"; find Browning's dramatic form in "Punch, the Immortal Liar," and Wordsworth in innumerable passages of Aiken's descriptions of nature.

> Keep in the heart the journal nature keeps;
> Mark down the limp nasturtium leaf with frost;
> See that the hawthorn bough is ice embossed,
> And that the snail in season has his grief.

That the Victorians were his ancestors does not circumscribe the range of Aiken's imagination. He is gifted with a rare insight, a sensuous feeling for words and their mnemonic qualities of meaning and sound, and a fresh eye which continually rediscovers the shapes and colors in nature. How sharply evocative is his "lyre-tree seven-branched," the "chicory's moon-dark blue" and "as the bent cat in the alley slinks his despair." He can evoke horror; "when you have done your murder . . . and the hangman's noose/ coils like a snake and hisses against your neck." He can touch magic; "this is the shape of the leaf and this of the flower"; or "to sing the day before the day break came."

The tragedy he went through at the age of twelve wrenched his life to pieces and thereafter affected everything he did, everything he wrote. In *Ushant*, his biographical essay written in the third person, he describes his terrible experience that day in Savannah, when, "after the desultory early-morning quarrel came the half-stifled scream, and then the sound of his father's voice counting three, and the two loud pistol shots; and he tiptoed into the dark room where the two bodies lay motionless and apart, and finding them dead, found himself possessed of them forever." They never left him.

The loss and the sense of ultimate "possession" of those beings were to influence Conrad Aiken's whole poetic life, and the development of his thought. In searching to bring himself back to a center of personal equilibrium he discovered his overwhelming need for the compensation of imagina-

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tive expression. This "will to illusion" is part of his definition of poetry.

New England to the bone in his ancestry, Aiken was born and spent his childhood in Savannah. He inherits the progression of thought which he has described with such succinct brilliance in his essay "Literature in Massachusetts." I do not suggest that he went through the stages of religious development from absolute faith to religious skepticism which he describes here, the transition from the Puritanism of Cotton Mather to the transcendentalism of Emerson and Melville. But he has the intrinsic quality of independence of soul that lies in the genius of Emily Dickinson. He shares her freedom of thought and courage in his stark questioning of life and the honesty of his confessional relation to it.

The primary emotion having been one of despair, what Aiken has called "the passionate heart-break at the center of the world," is always with him. It rises in the music of the early love poems. It is not a romantic melancholy, but an expression of the terror of darkness, of chaos, of the end of love, of the disappearance of beauty, of victory over happiness. But against the vision of cosmic oblivion he puts down, as R. P. Blackmur has said, "in the eternal form of words, the fragments of consciousness," and preserves his sanity and his faith in the experience which is poetry.

Aiken's critical essays have enriched and exemplified the themes of his poems and his definition of the language of poetry. "If language is communication, poetry is simply communication (or language) working at its highest pitch," he says in "ABC." In "Preludes for Memnon" and "Time in the Rock" he continues his dynamic definitions of poetry:

> And to know also that the word is
> action
> The word is murder
> To know also that the act is speech
> The kiss – a word.

If poetry is action it is also man's inner and outer experience of consciousness, forever mingling as the past and present mingle, "no text lost and poet lost, these only flow/into that other text that knows no year./ The peach tree in the poem is still here./ The song is in the peach tree and the ear." ("Letter from Li Po"). There is no beginning, no ending; life has no laws but its own laws of being.

Mr. Martin has undertaken a double task: to give a comprehensive view of this copious body of work, and to fill in the critical evaluation of Aiken's life in his art. Although Martin's primary interest is in the poetry he traces Aiken's "continuity of development" also in the novels, short stories, criticism and finally *Ushant*.

The fault in Martin's approach lies in too close adherence to the pattern of a theme – that Aiken's "chief virtue lies not in any particular poem or collection of poems, but in his growth." He compares Aiken's development to that of Yeats. But there is no such cleavage between Aiken's early and mature work as we find when Yeats abandoned his Irish myths and faced the reality of the modern world. Aiken's early poems carry the themes of the later ones.

Martin traces Aiken's relationship to Freud and the impact of the psychoanalytic theories of behavior on esthetics in his early thought. But Aiken is never dominated by the Freudian interpretation, although his philosophic contribution to modern poetry is related to his studies of Freud and Jung. In the poem "Changing Mind," (1925) a keynote to his work, he analyzes himself as a poet and his relation to his parents. His novel, *Great Circle*, Freud considered so excellent an example of his theory that he kept a copy in his office.

Martin's chapter on the relation between Aiken's fiction and his poetry is original, although here again his desire to follow a "chronological growth" is misleading. Aiken began to write short stories and poems simultaneously, and carried the same themes in both. In increasing awareness of himself, reliving and recreating details of experience, he penetrates further into his consciousness, finding there his own darkness, his personal sense of failure of honesty, integrity, kindness; and, facing them, learns to transcend them in his art. The mixture of Freudian sublimation and the guilt complex of a Puritan conscience runs through his fiction, in the short story of "Mr. Arcularis," in the stream of consciousness novel *Blue Voyage*, and, triumphantly, in *Ushant*.

And it is in *Ushant* (1952) that we find Aiken's philosophy of life and conceptions of its relation to poetry most completely expressed. He asks the question that Coleridge asked – "What hast thou, man, that thou darest call thine own?" Aiken describes the things he can call his own, now at the culmination of his career as a poet, in the image of the unending sea voyage which has always haunted him, with the dangerous beckoning island of Ushant to reach and pass. This is the inner portrait of the tortured life of an artist, but an artist who is profoundly normal, with generous and sometimes gay capacities for enjoying the outer world, the ego constantly shaping the material of reality, so that the two are a single unity. But the story is never finished, because, like the strange harmony of life, "it had no beginning and can have no end."

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Lord of Imbecility

by Honor Tracy

In this new novel, his fifth, Mr. Wain covers ground which has been covered before, "not once now and then, but again and again": he tells us a number of things we knew already and a number of others we may not by any means accept; but he does it with such zest and humor and simple starry-eyed pleasure that we shall have to forgive him. Indeed, he writes so well that the

Strike the Father Dead
by John Wain
(St. Martin's; $4.95)

end of the book may be reached before these drawbacks are perceived.

His theme is the revolt of the child against parent and its gradual melting into compassion and understanding as youth goes by and a new generation appears, to begin a rebellion of its own. Professor Coleman has the Chair of Classics in a minor university. He is cool, accurate, frugal and dedicated, an atheist with high standards of conduct, a scholar sure of the perennial importance to the world of Greek studies, and a man whose springs of feeling dried or went underground in the horrors of the First World War. His wife is dead. His son, Jeremy, is the tedious little egocentric all too familiar to readers of the present-day English novel: his only interest outside himself is jazz, on which he discourses at length and with a mirth-provoking solemnity. His father wants him to be a scholar, but it comes home with all the force of a vision to the sixteen-year-old that the intellectual life will never suit him. He runs away in search of Life, which means going to ground in the spiv world of wartime London, drinking, trying to lose his virginity and playing the piano in a dreary little club, while at home Professor Coleman and Aunt Eleanor wait, he with a stiff upper lip, she with a breaking heart.

A turning-point in Jeremy's career is when he meets Percy Brett, a bulky Negro with a genius for playing the horn and so good that he is harder to believe in than the hero of a Victorian book for boys: indeed, he only becomes briefly credible when, under morphia after some cockney guttersnipes have beaten him up, he indulges in grandiose dreams of becoming President of the United States on the strength of his talent. The pair teams up as best they can (Percy was in the Air Force, which liked to see something of him occasionally) and in due course move to Paris, in whose uneasy neurotic postwar state jazz is in great demand. They become a hit and Jeremy gets a contract from a tycoon to play in that Mecca of jazz, the United States. Percy by now is deeply in love with France and will not leave it for a place where Negroes can be forbidden to drink from a public fountain. Jeremy is all set to go alone when an incident with a woman opens his eyes to the kind of person he is in danger of becoming and he hurries away to London to save his soul, letting down woman, Percy, tycoon and all and spending the next ten years discovering that Daddy wasn't always wrong. It ends with him happily reunited to and playing with Percy but shaking a grieved bewildered middle-aged head over a teen-age mob who have given their brilliant jazz the bird and are clamoring for rock 'n' roll.

Mr. Wain's method is to allow the members of the family in turn to tell the story each from his or her point of view. It might have been effective if he had really explored the minds of all three and held a fair balance between them; but in spite of humane endeavors to do so, he identifies himself with the son so plainly that the other figures remain shadowy and unconvincing. Such as he is, Jeremy appears in the round, while the Professor and Aunt Eleanor reveal themselves only in their relationship to him or by their attitude to what he has done.

Mr. Wain's own attitude to the Professor is arbitrary and arrogant, as is shown by his choice of a title from the lines in *Troilus and Cressida*:

> *Strength shall be lord of imbecility,*
> *And the rude son shall strike the*
> *father dead.*

The "imbecility" of the father here consists of being true to his ideal of duty and service and to the classical tradition of civilized Europe, that Europe which Paul Valéry defined as "*la partie précieuse du monde*"; and, of course, failing to "understand" his detrimental child. The "strength" of the rude son consists in living entirely for and to himself and feeling essentially a man of his time. He suffers from a common delusion of to-day, the offshoot perhaps of political democracy, that all activities are of equal value if only we choose to say so. He despises

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the Professor's niggling over details of syntax or palaeography because he is unable to see that scholarship is built on such niggling, or to understand scholarship's place in civilized life. Jazz, on the other hand, strikes him not as an atavism, an echo from the mindless chaotic jungle, but as a virile 20th Century mode of expression, an art with the charm, denied to other arts, of not requiring a great deal of grind.

Nevertheless, when we have done shaking our heads at the author's addlepated perversity, when we have tut-tutted over his facile Freudian approaches and his contemporary clichés, have requested him kindly to spare us the Sunday-newspaper moralizing and wondered why the dickens he has to use that bastard American idiom, we still have a lively, fresh and impressive book, and one that is often extremely funny. The highest tribute that I could pay was to read it straight through without any sense of grievance: on my many previous encounters with "Jeremy" I have, even when handsomely bribed to continue, resolutely laid him down after having read only the first forty pages or so.

MOVIES

Save Us from the Serious

Pressure Point has an ingenious premise: A Negro prison psychiatrist in 1942 has to treat an inmate who has been sentenced for fascist-racist activities. The cleverness of the idea makes the heart sink; and the film does little to raise it.

There is a framework that takes place in the present. The Negro doctor is now the gray-haired chief of a mental hospital. A staff member is upset; he is making no progress in his treatment of a Negro patient who hates him for being white. (This is *just the reverse* of the above, see?) To calm down the junior doctor, the chief tells him about the Fascist whom he treated 20 years before. This is the body of the picture.

Pressure Point (United Artist)
Barabbas (Columbia

The Fascist is amused when he pays his first obligatory visit to the psychiatrist and discovers that he is Negro, but the prisoner is troubled by suffocating nightmares and returns for treatment. Extensive flashbacks – in reality and into the prisoner's fantasies – end with relief from the nightmares. He then seems a model prisoner and, despite the doctor's belief that the man is still dangerous, parole is granted. In fact, there is suspicion that the doctor is prejudiced against the man because of the latter's racism. Before leaving, the prisoner taunts him about his loyalty to a color-barred democracy, and the doctor delivers a set speech, stating that, with all its drawbacks, this is his country. . . . We complete the framework in the present as the junior doctor returns to his difficult Negro patient, mollified and inspired, though one doesn't quite see why.

This film tackles at least three important subjects: race prejudice, psychoanalysis, and the psychoneurotic bases of Fascism. An adult viewer has some right, I believe, to expect that such a film will enlighten him further on these subjects either with information or with dramatized insights. There can be little interest for him in paddling around on the surface of these subjects with oversimplifications and mechanical dramatics. What we get here is a set of psychiatric symbols made to fit together like plastic viscera in a drug-company's model. The Fascist's mother was bedridden and possessive. The father was a drunken, tyrannical butcher. The son's nightmares come from an impulse to kill his father and his guilt at the fantasies about doing it. And the Fascism? The one nice girl he ever knew was Jewish, and her father denied him the house. The German-American Bund provides a channel for revenge on her father and his own.

At a time when this country is seared with a race conflict infinitely more com-

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plex than this patly explained pat case, a crisis with tangled historical causes, this film seems half cheap liberal sermon and half opportunism. To no one's surprise, the producer is Stanley Kramer. As *Judgment at Nuremberg* showed, he believes that a serious subject makes a serious film and that the choice of such a subject excuses what would be arrant show-biz commercialism in another context. Example of the latter: the Fascist is played by Bobby Darin. This favorite singer of teenagers has attempted "straight" parts before and doubtless will try again, and will doubtless continue to be hailed by those who are glad he is no worse than he is, which is bad enough. The psychiatrist is played by Sidney Poitier, a restrained panther of an actor. Having burst the seams of *Raisin in the Sun* and *Paris Blues*, he is here only marking time until he gets parts worthy of his powers.

The screenplay by Hubert Cornfield and S. Lee Pogostin drips with the diction of Norman Corwin and Arch Oboler at their worst – that is, their most serious. Cornfield directed and shows an undeniable but somewhat meretricious talent. He contrives startling effects but never seems to ask himself whether they are pertinent or truly meaningful. There is a good deal of psychiatric imagery – a tiny Darin climbing out of a drain-pipe, a misty scene on a hill in the middle of nowhere – but much of it is reminiscent of earlier "psychological" films from Pabst through Hitchcock to Bergman.

Barabbas, long and Technicolored, proves that simple arithmetic does not make good pictures. If you add together a novel by a Nobel prizewinner (Par Lagerkvist), a screenplay by a noted dramatist (Christopher Fry), a competent director (Richard Fleischer), and a capable star (Anthony Quinn), the total is not a sum of the parts but papier-maché filled with wind. This is the story of the thief whom the Jerusalem mob chose to set free instead of Jesus; after the vicious criminal escapes the cross, his subsequent life leads him to a later cross as a believing Christian. The film eviscerates the novel and stuffs it with posings and pietisms. The sulphur mine sequence, where Barabbas is imprisoned, is the most credible, the immense gladiatorial sequence the most eye-filling. If only these three-hour shows were content to be shown, they might be fun. But for the joust and the battles in *El Cid* and *Spartacus* we have to suffer anachronistic humane sloganeering; for the chariot race and colosseum spectacles of *Ben Hur* and *Barabbas* we have to endure the most patently cynical religiosity.

Stanley Kauffmann

Correspondence

Deadlock in Europe

Sirs:

Only now I have been able to read Terence Prittie's remarkable summary and criticism of the German attitude toward the possibilities of breaking the political deadlock in Europe. There is, however, a small point concerning our periodical in his report that may give rise to some misunderstandings. It is true that *Der Monat* has, at least once, published the views of a young writer in favor of recognizing the East German Republic. We have, however, never identified ourselves with these arguments; on the contrary, I have myself, as editor of the publication, tried to refute them in our October issue.

F. R. Allemann
Der Monat
Berlin

Slums and Schools

Sirs:

While I'm throwing out bouquets, let me aim one at Christopher Jencks for his recent series on "Slums and Schools," which seemed to me sociological speculation of a very high order. One is accustomed to sociology without thought and to thought without sociology, but it is rare, and exhilarating, to find the two combined. Even at the price – which I for one most willingly pay – of a certain amount of goring of liberalistic oxen, or should one say sacred cows?

Dwight Macdonald
The New Yorker

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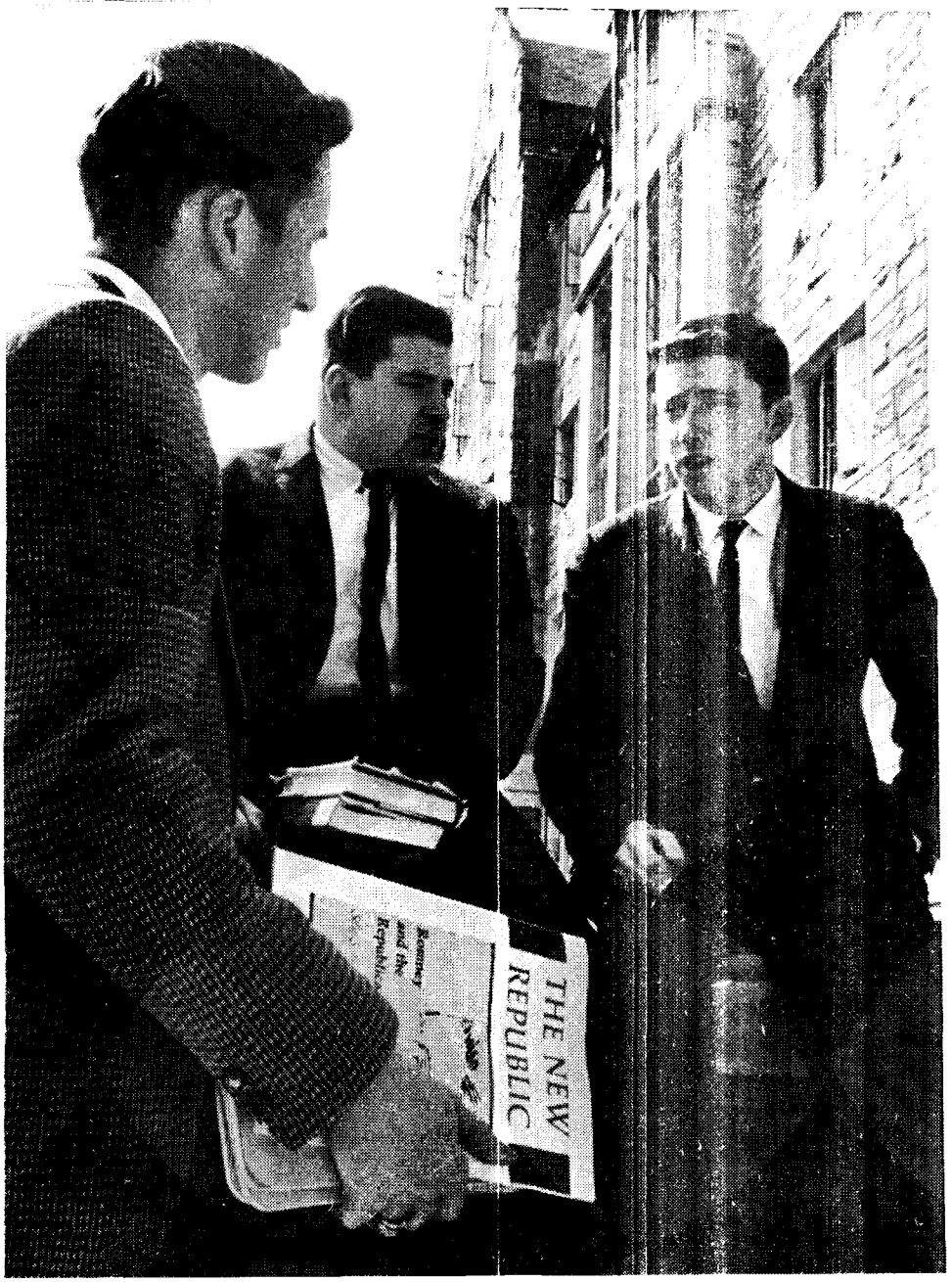

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